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rapid-american corporation
1976
ANNUAL
REPORT
STATISTICAL FILE
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MAY 4 1977
RHOADES, HORNBLOWER & CO.
LIBRARY
Botany
Manfredo
DAWSON
Blended Scotch Whisky
Leeds
Slazenger
Schenley VODKA
LILLET
Newberrys
Britts
Saddle Club
Wonderknit
Schenley
STOCK
McLELLAN
90 PROOF
EXTRA DRY
Schenley
GIN
Beau Brummell
McCRORY
Slazenger
Anvil
gillies
Botany 500
OTASCO
DUBONNET
Lerner Shops
Melini
Lerner
OTASCO
McCRORY STORES
Anvil
Gilead
Britts

CORPORATE OFFICERS

MESHULAM RIKLIS
Chairman of the Board, President and Chief Executive Officer

ISIDORE A. BECKER
Vice Chairman of the Board

LEONARD C. LANE
Chairman of the Executive Committee and Executive Vice President

ARIE GENGER
Vice President and Executive Assistant to the Chairman of the Board

CARL H. AHLEMEYER
Group Vice President—Industrial

HAIM BERNSTEIN
Vice President

STUART H. AARONS
Secretary

BERNARD J. BLANEY
Vice President and Treasurer

MICHAEL J. MAGENHEIM
Controller

BOARD OF DIRECTORS

MONA R. ACKERMAN
Story Editor associated with Frank Yablans Productions

ISIDORE A. BECKER*
Vice Chairman of the Board of Rapid-American Corporation and McCrory Corporation; Chairman of the Board and Chief Executive Officer of Schenley Industries, Inc.

HAIM BERNSTEIN
Vice President of Rapid-American Corporation and McCrory Corporation; President of Meridian-York Corporation (real estate and insurance brokerage)

*Member of the Executive Committee
**Member of the Audit Committee

HAROLD S. DIVINE
Sales and Marketing Consultant

BERNARD KOBROVSKY**
Private Investor

FRED KORROS
Account Executive, Harrison & Co. (stock brokers)

LEONARD C. LANE**
Chairman of the Executive Committee and Executive Vice President of Rapid-American Corporation

SAMUEL J. LEVY*
Chairman of the Board of Southern Packaging & Design Corp. (woven labels)

MESHULAM RIKLIS*
Chairman of the Board and Chief Executive Officer of Rapid-American Corporation and McCrory Corporation

PINHAS RIKLIS**
Chairman of the Board of Garay & Co., Inc. (ladies' handbags and belts)

LORENCE A. SILVERBERG*
Chairman of the Board of McCrory Variety Stores and Executive Vice President of McCrory Corporation

CORPORATE INFORMATION

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888 Seventh Avenue
New York, N.Y. 10019
Phone: (212) 399-4500

Co-Counsel
Rubin Baum Levin
Constant & Friedman
645 Fifth Avenue
New York, N.Y. 10022

Fried, Frank, Harris, Shriver & Jacobson
120 Broadway
New York, N.Y. 10005

Annual Meeting of Stockholders

This Annual Report is being mailed to stockholders on or about April 29, 1977. The date and place of the Annual Meeting of Stockholders have not yet been determined.

TO OUR STOCKHOLDERS

I am pleased to report that after two successive challenging and difficult years, Rapid-American Corporation exceeded budgetary expectations in fiscal 1976. Our concentrated efforts and close supervision of every operating unit produced the favorable results, and the Corporation closed the year with sales of $2,346,125,000 and net income of $13,940,000, compared with sales of $2,281,991,000 and net income of $5,275,000 (after an extraordinary tax credit of $14,715,000) in the prior year.

Lerner Shops achieved record sales, and its earnings were second only to the record earnings achieved last year despite a general weakness in apparel sales which first became apparent in May.

The McCrory Variety Stores substantially increased its profitability in fiscal 1976 over the prior year, continuing its successful on-going program of maintaining lower inventory levels, closing unprofitable stores, controlling costs, improving merchandise presentation, remodelling and refurbishing stores and selectively opening new stores.

OTASCO Stores experienced record sales and highly satisfactory earnings in fiscal 1976. It is with sadness that we report the passing in February 1977, of Julius Sanditen, who had been Chairman of the Board and Chief Executive Officer of OTASCO for many years.

Schenley posted record sales and improved its operating earnings in fiscal 1976 over the prior year. As previously reported there have been several inquiries regarding the possibility of our sale of Schenley. The Board of Directors of Rapid-American determined that Schenley is not up for sale; however, should any bona fide purchase offers be received by management, they will be brought to the attention of our Board of Directors.

Our industrial group, whose activities are described in the following pages, has, in the aggregate, substantially increased profitability over fiscal 1975. These results, which were forecast in last year's report, were achieved by the consolidation of certain units under proven managers and greater consumer acceptance of our product lines. We look forward to further gains in fiscal 1977 from this group. During the year we sold the B.V.D. trademark at a gain of approximately $4,000,000.

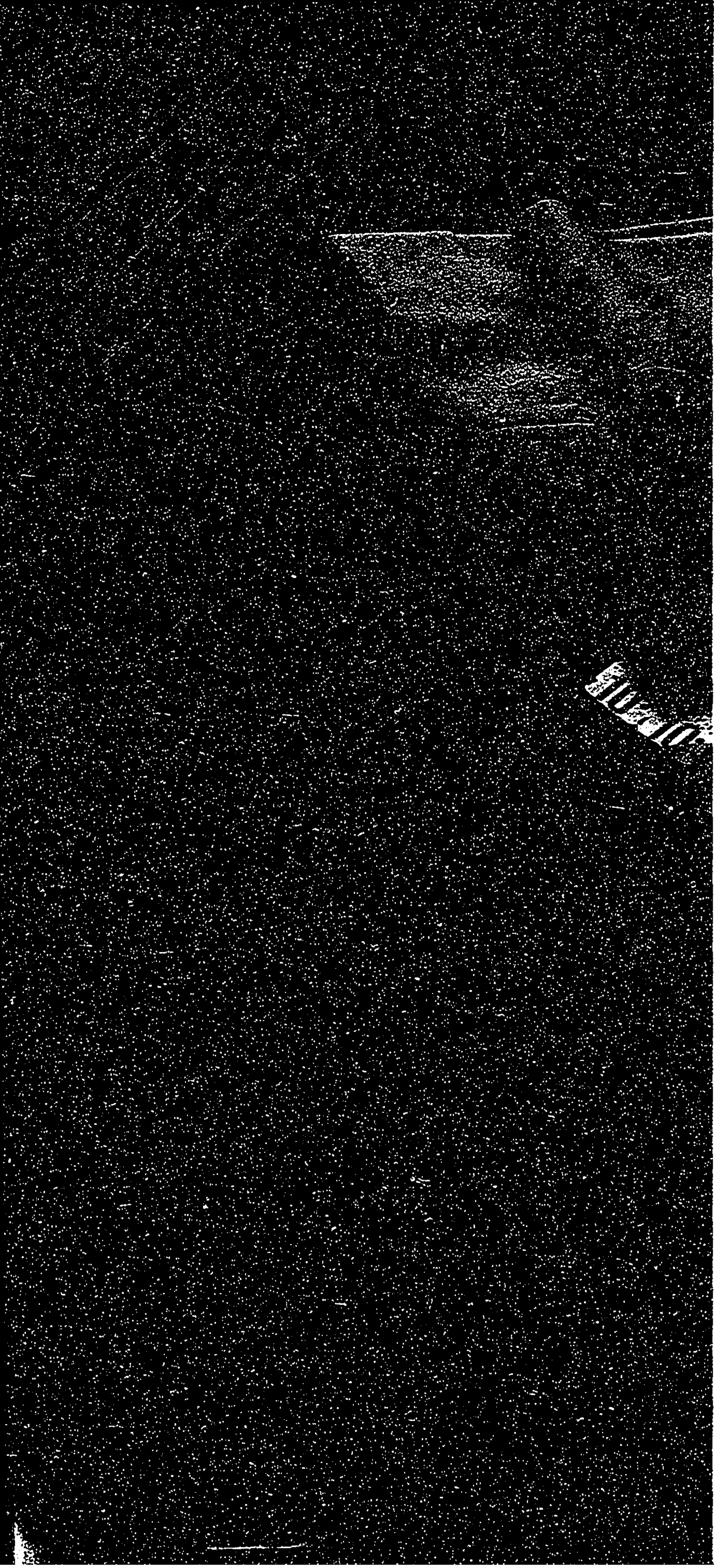
Fiscal 1976 also witnessed an improvement in our financial condition, the consolidation of operations, reduction of corporate overhead and the strengthening of our management team by the election of Bernard J. Blaney as Vice President and Treasurer, Arie Genger as Vice President and Executive Assistant to the Chairman of the Board, Michael J. Magenheim as Controller and the more recent election of Carl H. Ahlemeyer as Group Vice President—Industrial.

This has been a year of progress for Rapid-American. We are determined to continue our progress and further improvement lies ahead. We continue to develop sound fiscal policies and management expertise which will result in operating and overhead economies. We have now achieved a momentum which gives us confidence that Rapid-American will further increase its operating earnings in fiscal 1977.

March 31, 1977

Sincerely,

Chairman of the Board and President



LERNER SHOPS

Despite a general weakness nationally in retail sales which became apparent in May 1976, Lerner Shops achieved the second best earnings record in its history. Lerner believes it is the country's largest chain retailer specializing exclusively in women's and children's apparel.

During 1976, 26 new stores were opened in regional shopping centers (one a replacement of an existing unit) and 13 smaller out-moded shops were closed. As of the end of the year, there were 476 Lerner Shops in operation, 321 of which are in regional shopping centers. Current plans are to open over 25 stores in 1977, including one in the World Trade Center in New York City. Continuing its policy of maintaining its stores at the peak of efficiency and attractiveness, Lerner modernized and improved 19 stores in 1976.

In addition to its New York headquarters and distribution center, Lerner Shops operates regional offices and distribution centers located in Los Angeles, Atlanta, Jacksonville, Denver, Chicago, Pittsburgh and Dallas.

In September, Harold M. Lane, Jr., who was President and Chief Executive Officer, was elected Chairman of the Board and Chief Executive Officer; D. John Palladino, who was Executive Vice President, was elected Vice Chairman of the Board and Chief Financial Officer; Karl L. Margolis, who was a divisional Executive Vice President, was elected President and Chief Operating Officer; and Arthur E. Strickman and Marc J. Reiss were elected Executive Vice Presidents. Each of these five officers has served Lerner Shops for many years. Harold M. Lane, Sr. was named Chairman Emeritus of Lerner Stores Corporation. Mr. Lane, Sr. was a co-founder of Lerner Shops, established in 1918. Under his leadership the corporation has grown to its present position of eminence in the industry.

Harold M. Lane, Sr.—*Chairman Emeritus*
Harold M. Lane, Jr.—*Chairman of the Board and Chief Executive Officer*
D. John Palladino—*Vice Chairman of the Board and Chief Financial Officer*
Karl L. Margolis—*President and Chief Operating Officer*
Arthur E. Strickman—*Executive Vice President*
Marc J. Reiss—*Executive Vice President*

McCRORY VARIETY STORES

McCrory Variety Stores consists of 837 stores *operating under the names* of McCrory, McLellan, H. L. Green, J. J. Newberry and Cassels United.

This division's aggressive and concentrated effort to increase merchandise sales and turnover combined with constant improvement in all phases of operation has resulted in great forward strides for the chain. The sales and profit growth achieved in 1976 is expected to continue at an accelerated rate in 1977.

Ninety stores were closed in 1976 as part of a program of store closings with low ratio of sales to inventory and inventory turnover. This was another phase of an on-going program that has resulted in the closing of 275 stores in three years. As in the past, each store will be evaluated on the basis of its ability to contribute to the growth and strength of the chain as a whole.

Twenty new stores, ranging in size from 12,000 to 14,000 square feet, were opened in 1976. The new units are achieving their sales and profit goals and will contribute to 1977 profits. It is anticipated that new stores will be opened at carefully selected sites. At the same time, as part of a continuing program to increase store profitability through improved product presentation and development, 99 stores were modernized, refurbished and remerchandised in 1975, 126 in 1976 with another 76 programmed for 1977. Expenses related to this program were charged directly to operations. In addition, four high-volume, high-profit stores were totally remodelled in 1976 and 25 more such remodellings are scheduled for 1977.

McCrory Variety Stores is very proud of its people, both in the stores and in the home office and distribution center, who are the key to its success. McCrory Variety Stores will continue to offer its people every incentive and benefit it can, in line with its added growth.

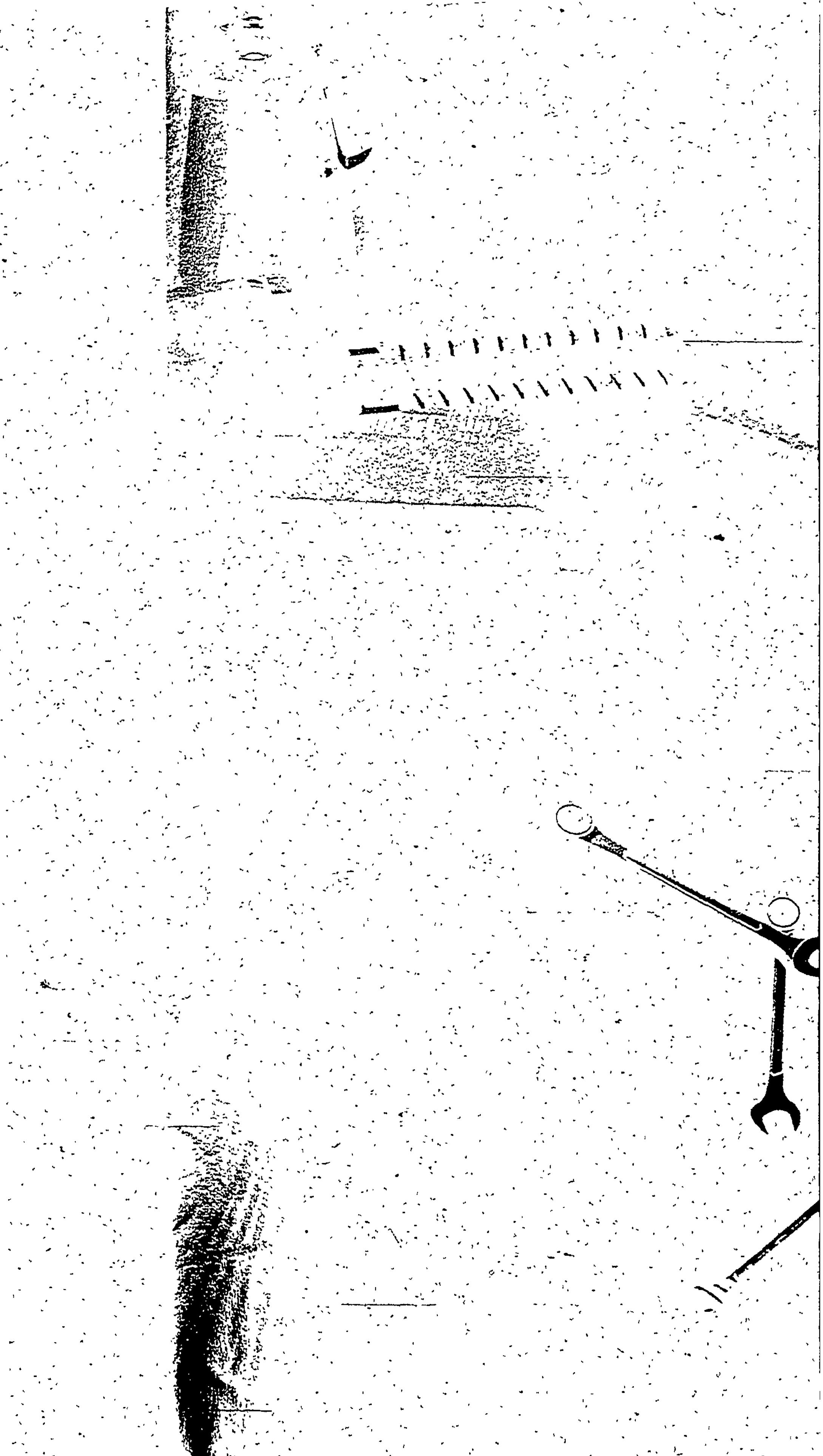
Lorence A. Silverberg
Chairman of the Board and Chief Executive Officer

Ben Litwak
President and Chief Operating Officer

Charles Gass
Senior Vice President, Services

Vice Presidents
Roger A. Elliott—Personnel
Harold R. Hughes—Administration
Irwin J. Hyman—Director of Real Estate
J. Philip Lux—General Merchandise Director
Paul McClellan—Movement of Goods
Bernard V. Morse—Analytics
Herbert S. Mortensen—Food Service
Kenneth Phillips—Informatics
George B. Stephens Jr.—Controller
William R. Tallman—Operations and Field Merchandise Director
Lazarus S. Yudin—Investment Control

Assistant to President/Director of New York Buying Office
Loren C. Shockley



OTASCO

1976 was another record sales year for OTASCO's 647 locations with highly satisfactory earnings, continued store expansion and upgraded product lines.

The consumer goods marketed by OTASCO include auto parts and accessories, hardware, toys and wheel goods, sporting goods, housewares and major appliances representing most of the leading national brand names in these categories. As a counter-trend to the impersonal approach prevalent in the retail business today, OTASCO's successful consumer program is built on the idea of the "Friendly Folks at OTASCO."

OTASCO operates in 13 contiguous Sunbelt states. It has 227 company-owned stores and supplies merchandise and merchandising aids to 420 associate stores. Last year OTASCO added five new company-owned and 32 new associate stores. OTASCO's stores are principally located in Oklahoma, Arkansas, Georgia, Mississippi, Missouri, Kansas, Louisiana, Alabama, Tennessee and Texas. Plans are underway for the opening this year of 15 company-owned and 25 associate stores, many in the Gulf Coast area and the Carolinas.

In September 1976, OTASCO's subsidiary, Otasco Credit Corporation, entered into a credit agreement with a group of regional banks. Currently $27,000,000 is being borrowed under this agreement.

Edgar R. Sanditen—*Chairman of the Board*
Abe Brand—*Vice Chairman of the Board*
Ely G. Sanditen—*Chairman of the Executive Committee*
A. Arnold McNatt—*President*
Jerry L. Goodman—*Vice President and General Counsel*
Paul Marks—*Vice President, Real Estate*
John Willis—*Vice President, Data Processing*
Donald Mann—*Vice President, Store Operations*
Robert E. Shireman—*Vice President, Wholesale Division*
J. R. Behl—*Vice President, Distribution*
Helen Mason—*Secretary*
Calvin Gilbert—*Treasurer*

IN MEMORIAM—JULIUS SANDITEN

The Board of Directors of OTASCO sadly reports the passing on February 17th of Julius Sanditen, its chairman, a member of the family which founded the company. He was a man of remarkable ability who, during his half century of service to OTASCO, did much to build OTASCO. He was also a man of gentle disposition and charm who was loved by all of his associates. It is indeed a tribute to his leadership that the depth of experienced senior personnel at OTASCO has filled the void occasioned by his loss.

BRITTS

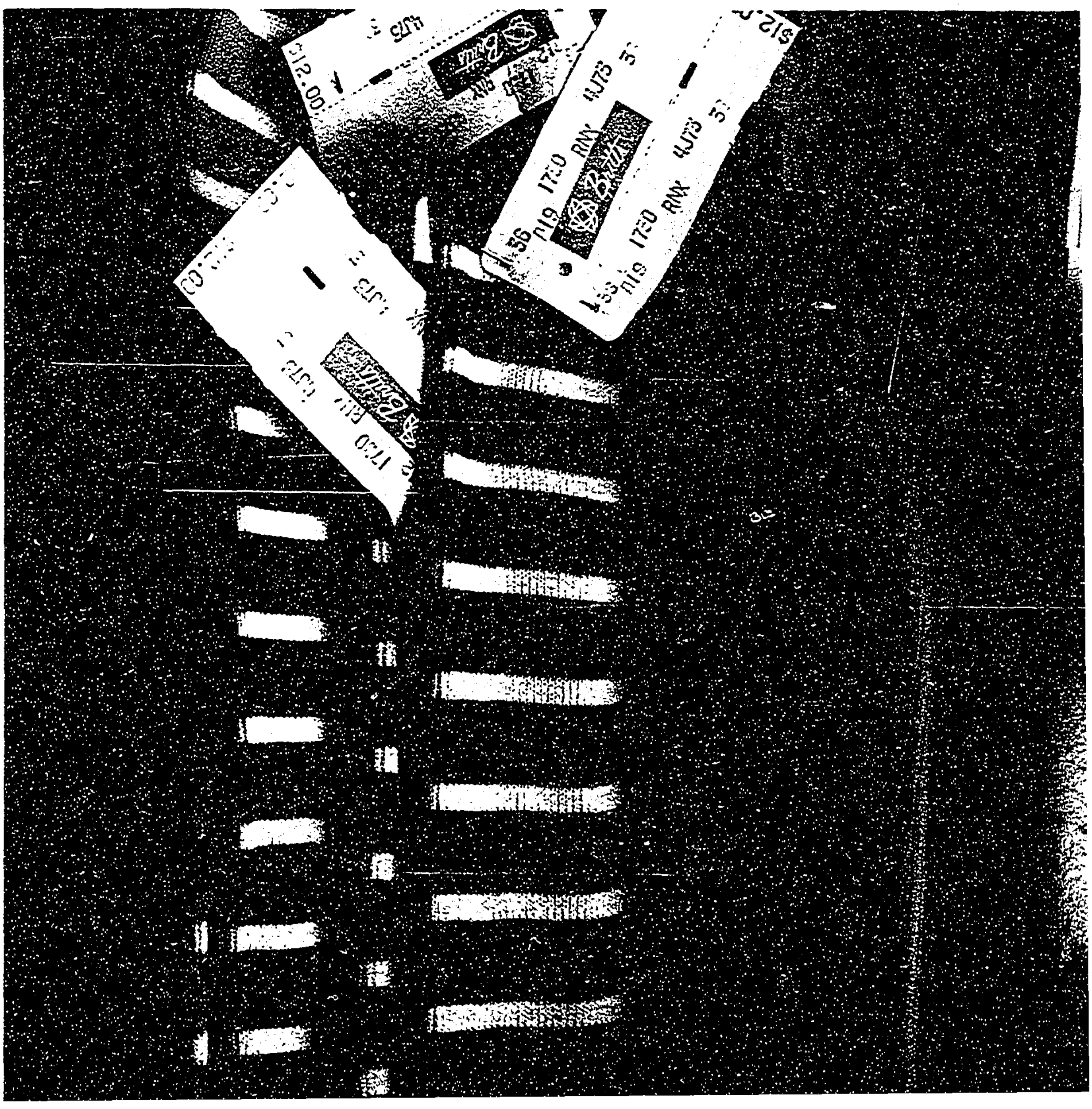
The Britts chain consists of 28 full line department stores stressing quality, style, fashion and consumer service. Originally a Florida-based operation, the Britts stores are now located principally in the eastern and southeastern states.

Britts carries fine quality, well-known brands of family wearing apparel, accessories, jewelry, cosmetics and fragrances in addition to complete assortments of better quality housewares, garden supplies, domestics, gifts, sporting goods and appliances. Better quality non-branded merchandise and name brand specials are used in support of its continuous emphasis on promotion within each department, consistent with the Britts fashion image.

Financial results of operations of the Britts chain in 1976 were adversely affected by losses sustained at the Westchester and Lake Success stores. The Westchester store was disposed of during the year and will no longer constitute a drain on Britts' operating results.

With the appointment in August 1976 of Mr. George W. Baylis, formerly President of Bonwit-Teller, as President of Britts, energetic steps are being taken to improve results of the chain. These include a change to centralized merchandising and buying instead of at the individual store level, the employment of experienced buyers, close supervision of merchandise inventories and the reorganization with invigorated staffs of merchandising, buying and sales promotion activities.

George W. Baylis—*President*
William J. O'Brien—*Executive Vice President*
Stephen Jackel—*Vice President, General Sales Manager*



Susan Sarandon in a scene from
"The Other Side of Midnight,"
a forthcoming major motion picture.

The major brand names of Schenley

STRAIGHT BOURBONS:
Ancient Age, Ancient Ancient Age, J. W. Dant, I. W. Harper, Old Charter

AMERICAN WHISKEY:
Schenley Reserve

SCOTCH WHISKIES:
Ancestor, J. W. Dant, Peter Dawson, Dewar's "White Label"

IRISH WHISKEY:
Power's Gold Label

CANADIAN WHISKIES:
J. W. Dant, Grande Canadian, MacNaughton, O. F. C.

TENNESSEE WHISKY:
George Dickel

BRANDIES:
Coronet VSQ, Asbach (Germany), *Cambas* (Greece), *Pedro Domecq* (Spain, Mexico), *Grand Trianon* (France), *Otard Cognac* (France), *Stock '84* (Italy)

GINS:
Schenley Extra Dry, Plymouth (England)

VODKAS:
Samovar, Schenley, Wyborowa (Poland)

RUMS:
Carioca (Puerto Rico), *Cruzan* (Virgin Islands)

TEQUILA:
Olé (Mexico), *San Matias* (Mexico)

LIQUEURS AND CORDIALS:
J W Dant, DuBouchett, Schenley, Cambas (Greece), *Cuarenta y Tres* (Spain), *Cusenier* (France), *Gallwey's* (Ireland), *Glayva* (Scotland), *Stock* (Italy), *Strega* (Italy)

APERITIFS AND VERMOUTHS:
Dubonnet Red and Blonde, *Lillet* (France), *Stock* Dry and Sweet Vermouth (Italy)

WINES:
Denmark: *Akiva, Bandor*
France: *Canard Duchene, Krug* (Champagne); *Chateau Beychevelle, Maison Bichot, Chateau Latour, Schroder & Schyler* (Bordeaux); *F. E. Hugel et Fils* (Alsace); *Bichot, Domaine Joseph Drouhin, Domaine J. Faiveley, Domaine Comte Georges de Vogue* (Burgundy); *Ackerman Laurance* (Loire Valley); *Delas Freres* (Rhone)
Germany: *Guntrum*
Greece: *Cambas*
Italy: *Bigi, Calissano, Fontanafredda, Fratelli Lambrusco, Lamberti, Melini, Negri, Rivera, Santi, Vaja*
Portugal: *Aveleda, Grão Vasco, Mateus* Rosé, *Mateus* White
Spain: *Cruz Garcia Real Sangria, Pedro Domecq* sherries, *Siglo*
Switzerland: *Neuchatel*

For the year ended January 31, 1977 Schenley Industries reached the highest volume of dollar sales in its history.

The record shows an almost unbroken series of gains in both domestic and imported spirits and wine categories.

All of the company's important Bourbons were ahead. *Old Charter, Ancient Age* and *Ancient Ancient Age* showed significant gains. *I. W. Harper* increased its share of market.

George Dickel Tennessee Whisky recorded its eleventh straight year of growth.

Dewar's White Label not only solidified its Number Two position in Scotch sales rankings and showed dramatic sales increases over the past year, it also demonstrated an impressive geographic spread in market growth.

Dubonnet aperitif wine continued its consistently strong sales pattern.

The company's "white goods" showed record increases. *Schenley* Vodka reached the million-case summit for the first time. In 1977, this area will be augmented by vodka imports from Poland, notably *Wyborowa*, for which Schenley has become exclusive distributor in the United States.

During the past year, imported wine volume turned strongly upward. Leading the way for Schenley was the country's Number One name in imported wine, *Mateus* Rosé and White.

The company's French wines showed solid growth, led by familiar shippers' names such as Joseph Drouhin, and proprietary brands such as *Lillet*.

Indeed, there is hardly an import category in wines, brandies and specialties where Schenley entries have not shown vigor and growth.

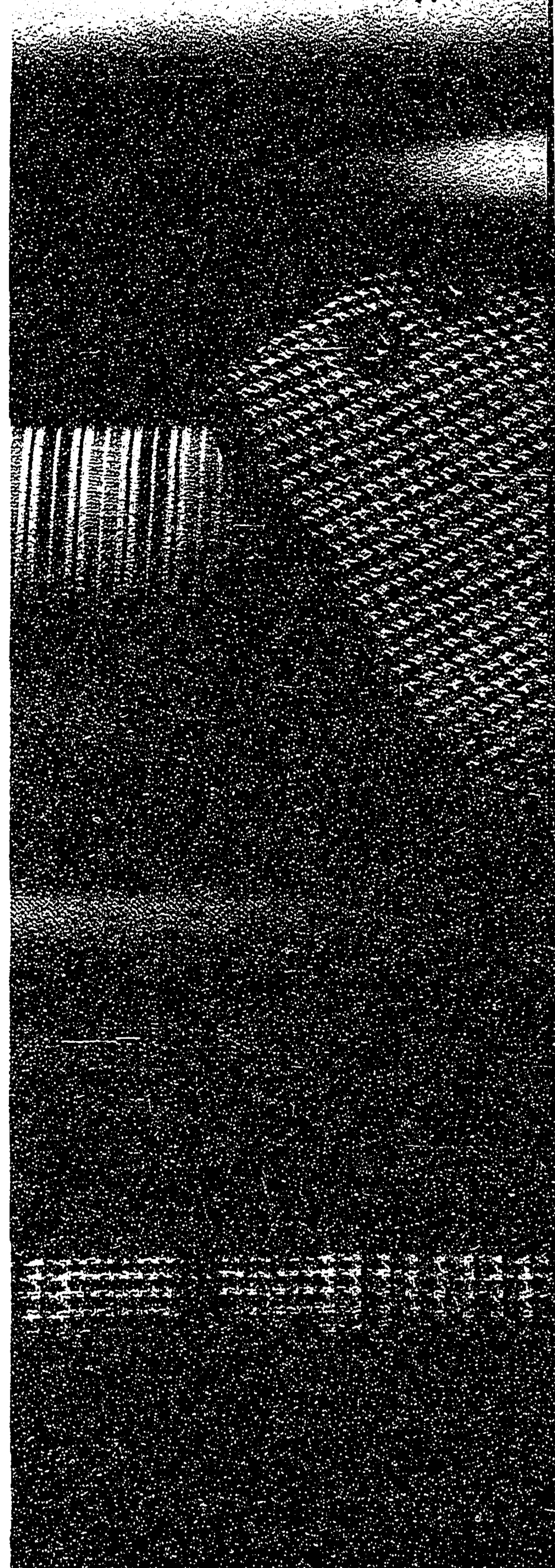
The Schenley overall product mix is now the most comprehensive it has ever been. Because of Schenley's reputation for its ability to distribute and market imports, it has attracted more brands from more categories and countries than ever before in its history. Recently added were: the world-famous Spanish brandies and sherries of *Pedro Domecq*, Mexico's *Presidente* brandy from the house of *Domecq*, *Hakatsuru* Japanese sake, *Noval* Portuguese port, *Lamberti, Melini* and *Bigi* Italian wines and, most recently, *Power's Gold Label* Irish whiskey. Schenley was also represented in the Italian wine market by *Fratelli Lambrusco* which was one of the leaders in its category.

The wine and spirits industry is a vibrant one, with consumer tastes constantly shifting and expanding. Today, with its wide range of entries in almost every wine and spirits category, Schenley is well-positioned to make even more significant gains in the period ahead.

Isidore A. Becker—*Chairman of the Board and Chief Executive Officer*
Howard S. Feldman—*President*
David A. Chernow—*Senior Executive Vice President*
Irving Hornstein—*Executive Vice President and Treasurer*
Adolph Slone—*Executive Vice President*
Charles Buscher—*Vice President*
Joseph Morelli—*Vice President*


86
86
PROOF
Schenley
RESERVE
I.W.HARPER
DEWARS
BLENDED SCOTCH
John Dewar

N= 58

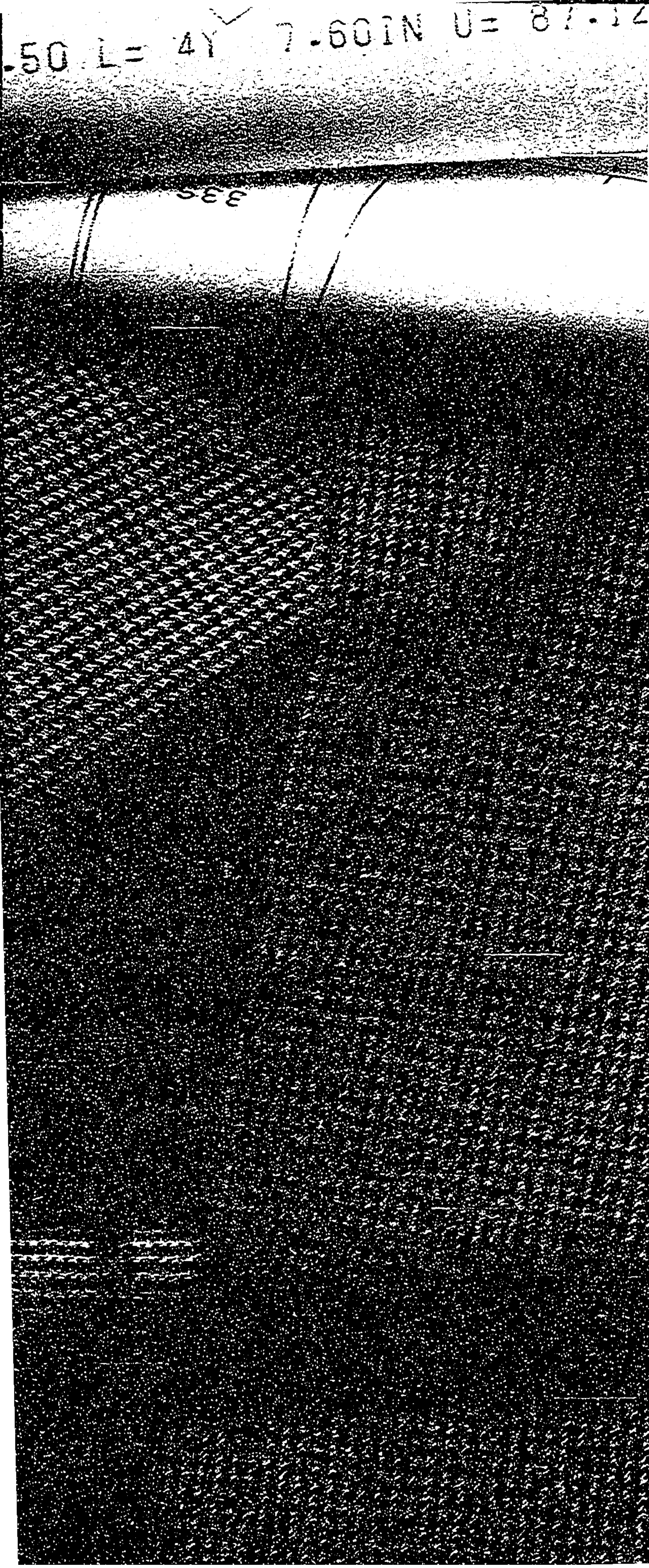


BOTANY '500'

Building on the long history and tradition of one of America's best-known brands in the men's clothing industry, the Botany '500' Division, under the inspired leadership of Maurice A. Halperin, achieved major improvements in earnings and market position during 1976. Above all, this resulted from a carefully planned approach which integrated early fashion trend recognition, selection of the finest domestic and imported fabrics, product quality improvements, an intensive national multi-media advertising campaign, and the development of a strong national sales network into a program for achieving distribution and sell-through to the consumer.

Botany '500' is dedicated to offering the American male up-to-date fashions in suits and sportscoats. Strict quality control, in combination with cost consciousness and enhanced manufacturing efficiency, allows Botany to offer exceptional value to the discriminating buyer. This product philosophy is the foundation on which Botany '500' is building its strategy for the future and its specific merchandising programs for 1977.

Maurice A. Halperin—*President*
Al Roth—*Executive Vice President, Sales/Marketing*
Lawrence Glazer—*Executive Vice President, Manufacturing*
Bruce Geller—*Vice President, Merchandising*
Daniel A. Molter—*Vice President, Finance*



CROSS COUNTRY CLOTHES

The Cross Country Division experienced one of the most successful years in its 50 year history. Volume and profits improved significantly, primarily as a result of management's success in offering an engineered product of better value at competitive prices.

Cross Country today is a leading manufacturer of popularly priced men's clothing. Few competitors can match its improved garment construction which provides for precise shape, fit, and wearability. A vital adjunct to construction is styling and Cross Country products reflect virtually all popular style categories—Traditional, Western, European, and Contemporary.

A competent management team has recaptured Cross Country's historically strong position as an important supplier to the major retail chains. As a result, it is now in a position to broaden its market base to include major independent retailers, department stores, and menswear stores.

Franklin A. Billera—*President*
George Cirocco—*Vice President, Operations*
Harold Haas—*Vice President, Marketing/Sales*
Gary Smith—*Controller*

GILEAD

Although Gilead is a relatively new name in the intimate apparel industry, the trade has been most responsive to the merchandising concept on which the line is built. Gilead has become a "must" source for leading department and specialty stores.

New designs, new designers, new ideas dramatically presented...fashion flexibility and innovation...the ability to cull from the talents of the entire textile industry...all this and more go into the robes, loungewear and lingeries that carry the *Gilead* and *Gillies* labels.

Today Gilead, with its own sales representatives, has become a significant factor in a market where fashion change has demanded a departure from traditional approaches.

David I. Klein—*President*
Aaron Jaffe—*Executive Vice President*
Robert J. Levin—*Vice President, Manufacturing*
John Riley—*Controller*

WONDERKNIT

Since 1946, Wonderknit has manufactured boys' shirts under the *Wonderknit* label which have deservedly earned an enviable reputation among leading department and specialty stores for quality, durability and style. Recently, Wonderknit has moved into the men's market with knit shirts under the *Red Fox* label.

Now the internationally known *Slazenger* name, long associated with Wimbledon, is being used to launch an extensive line of popularly priced active sportswear for both men and women. The introduction of this prestigious name under an exclusive agreement with an English company will add important sales volume and should help make 1977 an outstanding year.

Reuben M. Galston—*President*
Charles Crames—*Vice President, Sales*
Benjamin Shamper—*Vice President, Merchandising*
Anthony Patti—*Vice President, Manufacturing*
Jerome Linden—*Vice President, Western Division*
Daniel Mancini—*Controller*

FORDHAM-BARDELL

Fordham-Bardell Shirt Corporation is an important supplier to many of the country's major retail chains. Under various labels such as *Ruggers* and *Botany '500'*, it also markets men's dress, sport and casual knit shirts merchandised and designed for better department stores and specialty shops.

Recent changes in marketing emphasis and the continued growth of leisure time have created new opportunities for casual knit wear. To take advantage of this market potential, Fordam-Bardell is producing a fully coordinated line of knit shirts designed for casual attire markets such as golf and tennis.

Fordham-Bardell is part of a highly competitive industry. Its markets are being flooded with inexpensive imports. Efficient operations, innovative styling, creative marketing and aggressive selling are key factors to its success. Much of 1976, was devoted to positioning the company for profitable growth in the years ahead. Cost reduction programs were defined and implemented. Management was strengthened. Product improvements were achieved. Plans are being carried out to strengthen the sales force.

1976 was a period of transition for the Company and much was invested in laying the groundwork for future success. Profits were achieved in 1976 contrasted with losses incurred over the past two years.

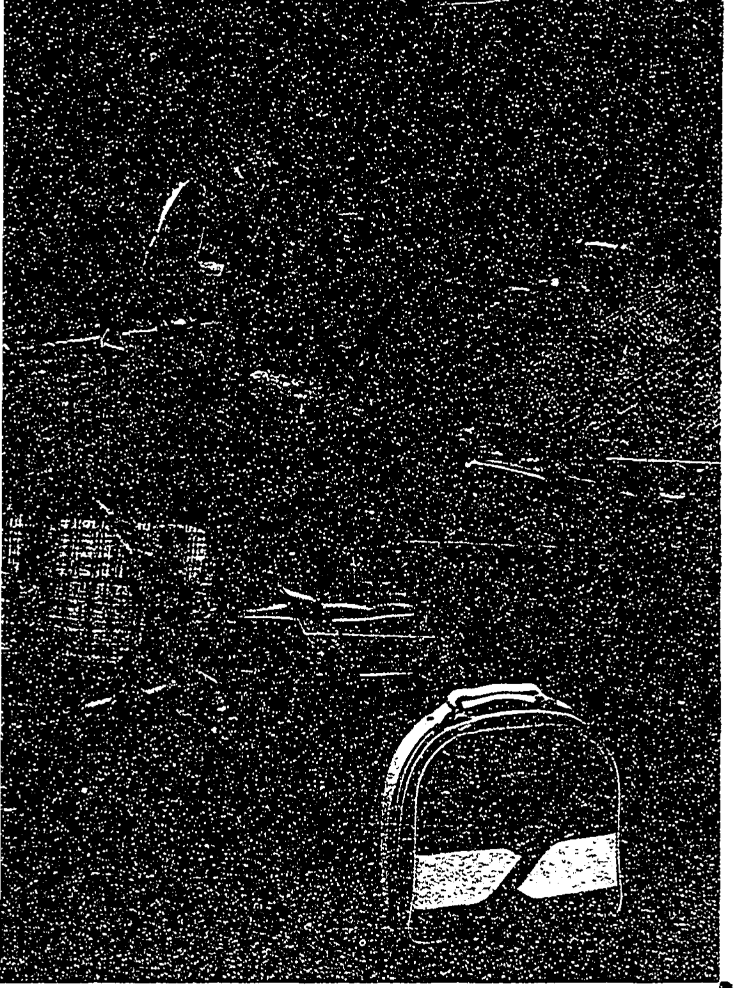
Daniel J. Manella—*President*
Joseph Ruggiero—*Vice President, Merchandise/Sales*
Houston Evans—*Vice President, Manufacturing*
Don Eisenberg—*Controller*

ANVIL KNITWEAR

Under the direction of Daniel J. Manella, President of Anvil Knitwear, the results of operations in 1976 reflected a dramatic turn-around. After having incurred substantial operating losses for each of the past three years, in 1976 the division operated at a significant profit.

Anvil Knitwear, formerly known as B.V.D. Knitwear, adopted the name change following the sale in 1976 of the *B.V.D.* trademark. It is still in a period of transition with production emphasis moving from the manufacturing of underwear to T-Shirts for the Anvil Screenprint operation. Anvil is now a leading supplier of this type of product, both under private label and the new *Anvil* trademark.

Daniel J. Manella—*President*
Ross Castagna—*Vice President, Screenprint Division*
Bernard Geller—*Vice President/Controller*



LEEDS TRAVELWEAR

The Leeds Division manufactures soft-sided luggage and golf, bowling and tennis bags. It supplies major department stores, national retail chains and military and sporting goods distributors.

Leeds possesses the manufacturing capacity and capability to become one of the major manufacturers in its industry. However, imports of inexpensive luggage, industry-wide price erosion, sudden changes in fashion preferences and the decline in luggage sales to certain major customer groups have in prior years and in 1976 prevented the achievement of satisfactory results.

A new management team at Leeds has developed a more appropriate marketing strategy and instituted major cost reduction and manufacturing efficiency improvement programs. While the effectiveness of these programs cannot be assessed at this early time, initial results are encouraging.

William D. King—*President*
Robert H. Wood—*Vice President of Operations*
Charles H. Hopkins—*Vice President of Finance/Administration*
Dennis M. Hayes—*National Sales Manager*

BEAU BRUMMELL

Some 5,000 fine retail stores throughout the United States carry ties manufactured by Beau Brummell, a recognized leader in its field, whose lines exemplify excellence in quality and styling. Top labels marketed are: *Beau Brummell, Mr. John* (couturier), *Saddle Club* (classic, traditional neckwear), *Nedo di Como* (all silk neckwear handmade in Italy) and *Snapper* (the pre-tied tie).

In addition to neckwear, a fine line of men's umbrellas is marketed under the *Beau Brella* name and Beau Brummell has the exclusive rights to distribute men's *Isotoner Gloves* by Aris, which profitably complement the operation.

Ned H. Brower—*President*
Robert A. Brower—*Executive Vice President*
Irvin Rubin—*Vice President, Charge of New York Office*
Bernard Friedman—*Vice President, Sales*
William D. Halker—*Vice President, Sales*
Fred Urban—*Vice President, Sales*
Nancy Roehm—*Controller*

OPERATIONS REVIEW

Net sales from continuing operations were $2,346 million in fiscal 1976, an increase of $64 million over the prior year. Net income for 1976 was $13,940,000 or $1.43 per share fully diluted, compared with net income of $5,275,000 (after an extraordinary tax credit of $14,715,000) or $.53 per share in the prior fiscal year. The contribution of each of the major lines of business to consolidated net sales and operating earnings (loss) from continuing operations for fiscal 1976 and the prior four fiscal years are shown below.

CONTINUING OPERATIONS

NET SALES						OPERATING EARNINGS (LOSS)				
1972	1973	1974	1975	**1976**	(In Millions)	**1976**	1975	1974	1973	1972
					Retail Merchandising(a)					
$ 434	$ 474	$ 506	$ 567	$ **582**	Lerner Shops	$ **51.4**	$ 56.2	$ 41.3	$ 43.4	$ 38.6
408	520	502	509	**495**	Variety Stores	**16.9**	12.6(b)	(3.3)	19.5	22.6
127	142	152	170	**184**	OTASCO	**11.5**	11.4	12.3	11.5	10.7
71	120	122	98	**104**	Britts and other	**(3.5)**	(.7)	.6	3.4	4.3
					Alcoholic Beverages					
693	741	760	783	**821**	Schenley	**44.6**	45.5(c)	42.7	56.1	48.5
					Industrial Group					
65	70	67	63	**72**	Menswear	**.2**	(1.9)	(.4)	6.9	5.8
48	48	47	37	**39**	Consumer Products	**(.6)**	(2.5)	(4.6)	(1.3)	.5
65	63	61	50	**49**	Knitwear	**3.8**	(8.8)	(8.0)	(5.5)	(.7)
50	49	42	5	**—**	*Other Operations*	**(1.0)**	(2.8)	(4.0)	(2.2)	.7
$1,961	$2,227	$2,259	$2,282	**$2,346**		**123.3**	109.0	76.6	131.8	131.0
					Unallocated Costs					
					Interest expense	**74.9**	90.6	104.5	81.6	59.8
					Debt discount and amortization of excess cost	**12.1**	13.7	13.7	11.2	6.5
					Administration	**15.9**	18.5	19.3	24.6	29.0
					Other (income)	**(10.1)**	(4.1)	(4.8)	(9.5)	(6.2)
					Provision for closed stores, etc.	**1.3**	19.7	10.4	—	—
					OPERATING EARNINGS (LOSS) FROM CONTINUING OPERATIONS(d)	**$ 29.2**	$(29.4)	$(66.5)	$ 23.9	$ 41.9

(a) Retail merchandising includes the operations of J.J. Newberry Co. from September 1, 1972.

(b) Before provision for closed stores of $13.4 million, included below.

(c) Includes a gain of $5.4 million from the sale of Long John International Limited.

(d) After state income taxes and before Federal and foreign income taxes and minority interest.

Five Year Summary of Consolidated Operations

	1976	1975	1974	1973	1972
	(In Thousands, Except Per Share Amounts)				
Revenues	$2,363,072	$2,296,195	$2,269,133	$2,244,872	$1,970,829
Cost of goods sold	1,728,821	1,680,099	1,678,279	1,633,013	1,459,898
Selling, general and administrative expenses	480,982	482,362	477,422	457,066	369,835
Interest and debt expense	95,805	119,190	143,416	105,302	76,702
Depreciation and amortization	19,349	20,048	20,583	19,487	16,763
Provision for store closing programs	—	13,400	—	—	—
Provision for loss on lease	—	3,500	—	—	—
Provision for disposition of certain operations	1,300	2,779	10,441	—	—
	2,326,257	2,321,378	2,330,141	2,214,868	1,923,198
Income (loss) from continuing operations before provision (benefit) for income taxes and minority interest	36,815	(25,183)	(61,008)	30,004	47,631
Provision (benefit) for income taxes	24,355	(6,563)	5,197	13,322	21,185
Income (loss) from continuing operations before minority interest	12,460	(18,620)	(66,205)	16,682	26,446
Minority interest	(1,480)	5,097	1,719	10,040	17,235
Income (loss) from continuing operations	13,940	(23,717)	(67,924)	6,642	9,211
Operations discontinued or sold:					
Income from operations (Playtex and S. Klein)	—	19,586	18,008	30,310	20,621
Provision for estimated losses on phase-out of S. Klein operations and write-off of excess cost in fiscal 1973.	—	(5,309)	(19,682)	(7,423)	—
	—	14,277	(1,674)	22,887	20,621
Income (loss) before extraordinary items	13,940	(9,440)	(69,598)	29,529	29,832
Extraordinary items	—	14,715	—	—	(8,365)
Net income (loss)	13,940	5,275	(69,598)	29,529	21,467
Consolidated preferred dividend requirements	2,023	1,652	1,739	2,012	3,253
Net income (loss) applicable to common stockholders	$ 11,917	$ 3,623	$ (71,337)	$ 27,517	$ 18,214
Income (loss) per share of common stock:					
Primary:					
Continuing operations	$ 1.54	$ (3.68)	$ (10.25)	$ .55	$ .76
Operations discontinued or sold	—	2.07	(.25)	2.59	2.57
Extraordinary items	—	2.14	—	—	(.97)
Net income (loss)	$ 1.54	$ .53	$ (10.50)	$ 3.14	$ 2.36
Fully diluted:					
Continuing operations	$ 1.43	*	*	$ .53	$ .78
Operations discontinued or sold	—	*	*	2.11	1.55
Extraordinary items	—	*	—	—	(.34)
Net income	$ 1.43	*	*	$ 2.64	$ 1.99

* Anti-dilutive.

Management's Discussion and Analysis of the Five Year Summary of Consolidated Operations

During the past several years there have been significant developments relating to Rapid's businesses and corporate structure, including acquisitions, dispositions and business combinations, which had a material effect on its consolidated operations. See Operations Review for the contribution of each major line of business to net sales and operating earnings (loss) from continuing operations.

The improvement in continuing operations before income taxes and minority interest in fiscal 1976 resulted primarily from (i) decreased interest expense, due principally to lower borrowing levels and interest rates; (ii) improved operating performance by Rapid's industrial group; (iii) improved results from McCrory (after including the 1975 provision for store closings); and (iv) gains on the sale of trademarks ($4,000,000) and repurchases of sinking fund debentures.

Rapid's results of consolidated operations were materially affected (i) in fiscal 1975 and 1974 by provisions for estimated losses related to McCrory's decision to phase out the operations of S. Klein and provisions for the disposition by Rapid of certain industrial group operations; (ii) in fiscal 1975 by McCrory's provision for store closing programs and Rapid's provision for loss on a lease; (iii) in fiscal 1973 by McCrory's write-off of excess of cost of investment over related equity attributable to S. Klein; and (iv) in fiscal 1974 and 1973 by S. Klein's operating losses (included in results of operations discontinued or sold).

The decrease in Rapid's loss from continuing operations in fiscal 1975, compared with the prior fiscal year, resulted primarily from (i) decreased interest expense, due principally to a decline in short-term borrowing levels, lower interest rates and the repayment of long-term debt; (ii) the improved operating performance of McCrory (after the provision for store closing programs) principally due to improved economic conditions, closing of unprofitable stores and expense control instituted in the Variety Stores division; (iii) a significant reduction in provision for disposition of certain industrial group operations; and (iv) tax benefitting Rapid's losses from continuing operations.

Rapid's loss from continuing operations in fiscal 1974 compared with its income in the prior fiscal year resulted principally from (i) losses incurred by those industrial group operations which Rapid disposed of and a provision for losses and expenses relating to the disposition of those operations; (ii) general economic conditions which affected the earnings of Schenley and McCrory and which were the major factor in losses incurred by Botany '500' (formerly Joseph H. Cohen); (iii) increased losses incurred by certain industrial group operations, particularly the underwear division, due to production problems and lack of consumer acceptance and increased losses incurred by Leeds Travelwear due to lack of consumer demand and a change in the product mix, which resulted in increased inventory levels; and (iv) increased interest expense stemming from higher interest rates and increased debt levels which, at Schenley, was due largely to the maintenance of higher inventory levels caused principally by price increases in raw materials. In addition, during fiscal 1974 no tax benefit was recognized for Rapid's operating loss carry-forward.

Consolidated Balance Sheet

ASSETS	January 31, 1977	January 31, 1976
	(In Thousands)	
Current Assets:		
Cash	$ 79,070	$ 79,458
Trade receivables, less allowances ($5,029,000 and $5,731,000)	196,131	150,984
Inventories	606,770	608,374
Other receivables, prepaid expenses, etc.	29,428	44,915
Total current assets	911,399	883,731
Investments and Advances:		
Otasco Credit Corporation, at equity	15,042	—
McCrory Credit Corporation, at equity	—	20,055
Other investments, etc. substantially at equity	10,459	10,294
Total investments and advances	25,501	30,349
Property, Plant and Equipment:		
Land	8,647	8,496
Buildings, store properties and warehouses	95,406	94,952
Furniture, fixtures and leasehold improvements	241,120	287,831
Machinery and equipment	75,873	74,393
Total—at cost	421,046	465,672
Less accumulated depreciation and amortization	228,132	270,205
Property, plant and equipment—net	192,914	195,467
Other Assets:		
Excess of cost of investments over related equities, less accumulated amortization ($15,226,000 and $12,003,000)	257,064	266,533
Franchises, less accumulated amortization ($1,720,000 and $1,321,000)	48,280	48,679
Trademarks and goodwill	3,472	4,220
Deferred charges, mortgages and sundry	41,841	49,478
Total other assets	350,657	368,910
Total	$1,480,471	$1,478,457

See Notes to Financial Statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	January 31, 1977	January 31, 1976
	(In Thousands)	
Current Liabilities:		
Short-term debt	$ 114,412	$ 85,823
Current maturities of long-term debt	10,136	23,457
Accounts payable	95,316	85,883
Accrued expenses and sundry	134,126	135,586
Accrued Federal and foreign income taxes	36,123	38,092
Total current liabilities	390,113	368,841
Long-Term Debt, Less Current Maturities and Unamortized Discount	817,371	841,822
Other Non-Current Liabilities:		
Deferred Federal and foreign income taxes	14,675	1,778
Other	73,345	91,622
Total other non-current liabilities	88,020	93,400
Minority Interest in Subsidiaries	19,155	27,724
Stockholders' Equity:		
Capital stock:		
Preferred stocks (aggregate liquidation preference, $24,014,000 and $24,047,000)	6,831	6,847
Common stock, $1 par value, authorized 50,000,000 shares, issued (1977) 7,935,629 shares and (1976) 6,986,934 shares, less treasury stock (1977) 82,443 and (1976) 82,459 shares	7,853	6,904
Additional paid-in capital	185,192	187,761
Deficit	(34,064)	(3,023)
	165,812	198,489
Less equity in subsidiary's cost of its treasury stock and subsidiary's carrying value of investment in Rapid-American Corporation common stock (less par value) and warrants	—	51,819
Total stockholders' equity	165,812	146,670
Total	$1,480,471	$1,478,457

See Notes to Financial Statements.

Statement of Consolidated Operations

	Year Ended January 31, 1977	Year Ended January 31, 1976
	(In Thousands, Except Per Share Amounts)	
Revenues:		
Net sales	$2,346,125	$2,281,991
Other—net	16,947	14,204
	2,363,072	2,296,195
Costs and Expenses:		
Cost of goods sold	1,728,821	1,680,099
Selling, general and administrative expenses	480,982	482,362
Interest and debt expense	95,805	119,190
Depreciation and amortization	19,349	20,048
Provision for store closing programs	—	13,400
Provision for loss on lease	—	3,500
Provision for disposition of certain operations	1,300	2,779
	2,326,257	2,321,378
Income (Loss) From Continuing Operations Before Provision (Benefit) for Income Taxes and Minority Interest	36,815	(25,183)
Provision (Benefit) for Income Taxes	24,355	(6,563)
Income (Loss) from Continuing Operations Before Minority Interest	12,460	(18,620)
Minority Interest	(1,480)	5,097
Income (Loss) From Continuing Operations Before Extraordinary Credit	13,940	(23,717)
Operations Discontinued or Sold:		
Income from operations (Playtex)	—	19,586
Provision for estimated losses on phase-out of S. Klein operations	—	(5,309)
	—	14,277
Income (Loss) Before Extraordinary Credit	13,940	(9,440)
Extraordinary Credit	—	14,715
Net Income	13,940	5,275
Consolidated Preferred Dividend Requirements	2,023	1,652
Net Income Applicable to Common Stockholders	$ 11,917	$ 3,623
Income (Loss) Per Share of Common Stock:		
Primary:		
Continuing operations	$1.54	$(3.68)
Operations discontinued or sold	—	2.07
Extraordinary credit	—	2.14
Net income	$1.54	$ .53
Fully Diluted—Net Income	$1.43	*

* Anti-dilutive.

See Notes to Financial Statements.

Statement of Consolidated Stockholders' Equity

	Preferred Stocks	Common Stock	Additional Paid-in Capital	Deficit	Treasury Securities*
			(In Thousands)		
Balance, February 1, 1975	$6,959	$6,853	$190,133	$ (7,767)	$(52,811)
Net income				5,275	
Cash dividends:					
On preferred stocks			(945)		
On common stock ($.125 per share)			(871)		
Conversion of preferred stocks	(112)	51	61		
Equity in certain transactions of subsidiaries			(617)	(531)	992
Balance, January 31, 1976	6,847	6,904	187,761	(3,023)	(51,819)
Net income				13,940	
Cash dividends—on preferred stocks			(942)		
Conversion of preferred stocks	(16)	1	15		
Issuance of shares of common stock pursuant to merger of a wholly-owned subsidiary with McCrory		948	5,805		
Cancellation of treasury shares of McCrory at date of merger			(6,212)	(44,991)	51,203
Equity in certain transactions of subsidiaries			(642)		33
Reclassification			(593)	10	583
Balance, January 31, 1977	$6,831	$7,853	$185,192	$(34,064)	—

* Consisted of equity in subsidiary's cost of its treasury stock and subsidiary's carrying value of investment in Rapid's common stock (less par value) and warrants.

See Notes to Financial Statements.

Statement of Changes in Consolidated Financial Position

	Year Ended January 31, 1977	1976
	(in Thousands)	
Funds Provided:		
Operations:		
Income (loss) before extraordinary credit	$ 13,940	$ (9,440)
Items not currently requiring (providing) funds:		
Depreciation and amortization (discount, excess cost, etc.)	31,473	36,765
Deferred income taxes and utilization of a net operating loss carry-forward in 1977	10,883	6,632
Minority interest (after preferred dividends of $849,000 in both years)	(2,329)	1,057
Provision for store closing programs and loss on lease	—	18,134
Other—net	7,508	4,976
Funds provided by operations, exclusive of extraordinary credit	61,475	58,124
Funds provided by income from extraordinary credit	—	14,715
Decrease in investment in McCrory Credit Corporation	20,300	—
Reduction in excess cost related to McCrory merger	8,251	—
Disposals and reclassification of property, plant and equipment	5,314	9,161
Issuance of securities in McCrory merger	6,753	—
Issuance of long-term debt	4,102	144,507
Business sold—net (exclusive of working capital of $84,732,000)	—	92,838*
Sale of investment in Long John	—	25,026
	106,195	344,371
Funds Applied:		
Reduction in long-term debt	33,754	264,396
Additions to property, plant and equipment	24,483	21,909
Investment in Otasco Credit Corporation	15,000	—
Acquisition of minority interest in subsidiaries	12,037	1,178
Reduction of non-current reserves relating to store closing programs	11,605	6,004
Cash dividends	942	1,816
Other—net	1,978	(4,714)
	99,799	290,589
Increase in Working Capital	$ 6,396	$ 53,782
Increase (Decrease) in Working Capital by Components:		
Cash	$ (388)	$ 655
Trade receivables, less allowances	45,147	(53,076)
Inventories	(1,604)	(71,000)
Other receivables, prepaid expenses, etc.	(15,487)	(676)
Short-term debt	(28,589)	151,656
Current maturities of long-term debt	13,321	10,639
Accounts payable	(9,433)	(759)
Accrued expenses and sundry	1,460	23,254
Accrued Federal and foreign income taxes	1,969	(6,911)
Increase in Working Capital	$ 6,396	$ 53,782

* Consists of excess of cost over equity in net assets of business sold ($64,822,000), property, plant and equipment ($31,270,000), other net items ($458,000) less long-term debt ($3,712,000).

See Notes to Financial Statements.

Notes to Financial Statements

1. *Summary of Significant Accounting Policies*

Principles of Consolidation

The consolidated financial statements include (i) Rapid and its divisions, Leeds Travelwear, Rapid Electrotype and, to October 31, 1975 (date of sale), International Playtex; (ii) McCrory Corporation and its divisions and subsidiaries, including Lerner Stores Corporation and subsidiaries, Otasco, Inc. (which operated as a division until July 31, 1976) and subsidiary, J. J. Newberry Co. and subsidiaries and all other subsidiaries, exclusive of McCrory Credit Corporation (liquidated on January 31, 1977) and Otasco Credit Corporation (which commenced operations in September 1976) which are carried at equity; (iii) Schenley Industries, Inc. and its subsidiaries, exclusive of Long John International Limited, a 75% owned subsidiary of Schenley in the United Kingdom carried at equity to July 31, 1975 (date of sale); (iv) Anvil Brand, Incorporated (formerly known as The B.V.D. Company, Inc.) and its divisions and subsidiaries; (v) Rapid-American Menswear, Inc. and its divisions; and (vi) certain other subsidiaries whose assets and operations in the aggregate are not significant.

To facilitate comparisons with the current year, certain amounts in the prior year have been reclassified.

Inventories

Whiskey, other spirits and wine inventories in bond, classified as current assets in accordance with the general practice of the industry, include inventories, which, in the normal course of business, will remain in storage to be aged for periods exceeding one year. It is not possible to state the amount of inventory which will be realized within one year. The inventories in bond are subject to payment of excise taxes upon removal from government controlled premises.

Net sales and cost of goods sold include Federal excise taxes, import duties and state liquor taxes of approximately $356,192,000 and $352,329,000, respectively, for the years ended January 31, 1977 and 1976.

Property, Plant and Equipment

It is the policy of Rapid and its subsidiaries to provide for depreciation of depreciable properties at rates designed to extinguish the cost thereof over the estimated service lives of the properties. The approximate annual rates of depreciation, which have been computed generally on the straight-line method, are as follows:

	Rates of Depreciation
Buildings, etc.	2 to 20%
Furniture, fixtures and automobiles	2½ to 33⅓%
Machinery and equipment	4 to 25%
Leasehold improvements (including buildings on leased land)	Term of lease or estimated useful life of improvement, whichever is less.

Expenditures for maintenance and repairs are charged to income or costs of production as incurred. Expenditures for renewals which extend the estimated useful lives of the properties, and the cost of betterments of such properties, are charged to the appropriate fixed asset accounts.

At the time of sale or disposition of assets, the cost and related accumulated depreciation or amortization are eliminated from the accounts, and any gains or losses are reflected in income.

Excess of Cost of Investments Over Related Equities and Franchises

The excess of cost of investments over related equities which arose from acquisitions prior to October 31, 1970, amounting to $115,689,000 at January 31, 1977 and $115,861,000 at January 31, 1976, has been recognized as being similar in nature to intangibles which have not declined in value since acquisition. In accordance with Accounting Research Bulletin 43, these excess costs have not been amortized or written down as, in the opinion of management, there has not been any permanent impairment in the value of the related investments (see Notes 2 and 4). Franchises which consist of Schenley contracts to import whiskeys, liquors, and other distilled spirits, have continuing value and accordingly are not being amortized, except for the portion acquired subsequent to October 31, 1970.

Pursuant to certain opinions of the Accounting Principles Board, the excess of cost of investments over related equities which arose from acquisitions subsequent to October 31, 1970, amounting to $141,375,000 (after accumulated amortization of $15,226,000) at January 31, 1977 and $150,672,000 (after accumulated amortization of $12,003,000) at January 31, 1976, and the portion of franchises amounting to $14,226,000 (after accumulated amortization of $1,720,000) at January 31, 1977 and $14,625,000 (after accumulated amortization of $1,321,000) at January 31, 1976, acquired from Glen Alden's minority interest subsequent to October 31, 1970 are being amortized on the straight-line method over forty years (see Notes 2 and 4). These excess costs and franchises have not been otherwise written down, as, in the opinion of management, there has not been any permanent impairment in the value of the related investments.

Excess of Net Assets Acquired Over Related Costs

The excess, amounting to $11,139,000 at January 31, 1977 and $13,134,000 at January 31, 1976 (after accumulated amortization and other adjustments of $13,634,000 and $11,639,000, respectively), of the net assets acquired in the acquisition of J. J. Newberry Co. in 1972, over the aggregate cost was attributed to property accounts, is included in accumulated depreciation and amortization, and is being amortized (as a reduction of depreciation) over a ten year period, the estimated useful life of the property. Such amortization amounted to $1,995,000 and $2,264,000, respectively, during the years ended January 31, 1977 and 1976.

Income Taxes

The cumulative amount of undistributed earnings of subsidiaries on which Rapid or its subsidiaries may be required to recognize income taxes upon distribution amounted to approximately $86,800,000 at January 31, 1977 and $64,500,000 at January 31, 1976. No provision has been made for taxes that would be payable upon distribution, since such earnings have been indefinitely reinvested.

2. *Investments*

Consolidated Subsidiaries

McCrory Corporation—At January 31, 1976 Rapid owned 3,151,339 shares (62.5%), of McCrory common stock outstanding. In connection with the merger of a wholly-owned subsidiary of Rapid with and into McCrory on March 12, 1976, which was accounted for as a purchase transaction in which Rapid was the acquiring corporation, (i) 947,743 shares of Rapid common stock were exchanged for all of the outstanding shares of McCrory common stock (other than shares held by Rapid), (ii) all other McCrory securities remained outstanding, with certain McCrory securities becoming convertible or exercisable into Rapid common stock pursuant to the terms of the merger, and (iii) McCrory retired its common stock held in treasury.

From November 7, 1975 through January 31, 1976, Rapid purchased approximately $57,150,000 principal amount of McCrory subordinated debentures. The difference of $11,550,000 between McCrory's carrying value ($40,700,000) of such debentures and the aggregate purchase

price ($29,150,000) was included in "Other non-current liabilities—other" in the consolidated balance sheet at January 31, 1976. Also as of such date, pending the subsequent merger of McCrory with Rapid, it was expected that such difference would be considered in determining the purchase value assigned to the net assets of McCrory acquired upon the merger. During the period from February 1, 1976 through March 31, 1976 Rapid purchased an additional $10,087,000 principal amount (carrying value $7,560,000) of McCrory subordinated debentures at a cost of approximately $6,047,000. During March 1976, in connection with the merger, McCrory issued to Rapid three subordinated promissory notes (the "Notes"), in the aggregate principal amount of $35,197,000, payable on December 31, 1982. The Notes were issued to Rapid in exchange for $67,237,000 aggregate principal amount (carrying value $48,260,000) of McCrory's subordinated debentures (the "Debentures"), which Rapid had previously purchased on the open market at a cost of $35,197,000. The Notes bear interest payable quarterly in an amount equal to the interest which would have been accrued on the Debentures delivered in exchange for the Notes (approximately $5,171,000 per annum, an effective interest rate of 14.7%). The Notes are subordinated to McCrory's indebtedness to suppliers incurred in the ordinary course of business and to all guarantees, endorsements and other contingent obligations in respect of such indebtedness to suppliers. In accordance with the provisions of McCrory's Revolving Credit Agreement (see Note 6), McCrory applied the Debentures (with the exception of $3,550,000 principal amount of McCrory's 7¾% sinking fund subordinated debentures used in the settlement of a lawsuit) to meet the mandatory sinking fund requirements of the applicable issue of Debentures. McCrory recorded an extraordinary gain of $10,413,000, after income taxes of $2,650,000, on this transaction. The equity in the underlying net assets acquired from McCrory's common stock minority interest exceeded the aggregate cost ($9,000,000) of such investment by $8,300,000, including therein Rapid's equity in the gain on the purchase of McCrory's debentures which has been reflected as a reduction of the cost of the McCrory common stock minority interest acquired.

Schenley Industries, Inc.—Rapid's equity in the income of Schenley was $24,731,000 and $23,273,000, respectively, for the years ended January 31, 1977 and 1976. The net assets of Schenley at such dates were $349,200,000 and $349,119,000, respectively. Rapid carries its investments in subsidiaries, including Schenley, at equity, plus, where applicable, the excess of the aggregate cost over the equity in underlying net assets acquired at dates of acquisition, including the portion allocated to franchises (see Note 4).

International Playtex—On November 7, 1975, effective as of October 31, 1975, the Playtex operations (domestic division and foreign subsidiaries) were sold to Esmark, Inc. for $210,000,000, in cash, notes and preferred stock of Esmark. The sale of Playtex did not result in a reported gain or loss for financial statement purposes as the excess of the proceeds of sale over (i) the expenses of sale, (ii) the estimated Federal income tax liability and (iii) the equity of Playtex delivered to Esmark, was applied as a reduction of excess cost ($64,822,000, net of accumulated amortization of $2,374,000).

The results of operations of Playtex, after intercompany eliminations, for the nine months ended October 31, 1975 (date of sale) have been segregated from continuing operations in the statement of consolidated operations, as follows:

	(In Thousands)
Net sales	$250,256
Costs and expenses	218,102
Income before income taxes	32,154
Provision for income taxes	12,568
Net income	$ 19,586

S. Klein Department Stores, Inc.—In March 1975 (reflected in the financial statements as of January 31, 1975), management of McCrory decided to phase out completely the operations of S. Klein Department Stores, Inc., a wholly-owned subsidiary of McCrory. While it was not then possible to determine the ultimate loss to be incurred in connection with such phase-out, a provision of $58,300,000 for the estimated losses to be incurred in phasing out the S. Klein operations, less related deferred Federal income tax benefit of $26,800,000, was established during the year ended January 31, 1975, based upon various assumptions which management then believed were realistic. In December 1975 management of McCrory decided to record an additional provision of $16,400,000, less related Federal income tax benefit of $7,900,000, based upon losses incurred through October 31, 1975 and revised estimates of additional future losses to be incurred (including the transactions with Korvettes, Inc. described below). Such estimated losses and charges consist of the following:

	Provisions			
	Year Ended January 31,		As of January 31, 1977	
	1975	1976	Charges	Balance
	(In Thousands)			
Write-down of assets to net realizable value	$24,126	$ 1,755	$25,881	—
Present value of future lease commitments and real estate taxes, net of estimated recoveries	24,110	6,320	15,530	$14,900
Estimated operating losses during phase-out period and other related costs	10,064	8,325	15,836	2,553
	58,300	16,400	$57,247	$17,453
Less estimated Federal income tax benefit	26,800	7,900		
Estimated losses	31,500	8,500		
Less minority interest	11,818	3,191		
Rapid's equity therein	$19,682	$ 5,309		

The balance at January 31, 1977 consists of $6,926,000 (current) and $10,527,000 (long-term) and at January 31, 1976 consisted of $7,307,000 (current) and $16,274,000 (long-term).

The program of phasing out the S. Klein stores resulted in all nineteen stores being closed by the end of August 1975. Management of McCrory has completed the disposition of ten of the stores, which includes the disposition of five stores to Korvettes, Inc., and is operating one store as a Britts department store. Additional adjustments may be required based upon the results of efforts to make further dispositions of leased premises. The current present value of remaining future lease commitments and real estate taxes relating to the stores which have not yet been disposed of, assuming no additional recoveries, is approximately $25,000,000 (before giving effect to income taxes) in excess of that which has been provided for. It is the opinion of management of Rapid that the ultimate resolution of the S. Klein phase-out will not have a material effect upon Rapid's consolidated financial position.

As of October 1, 1975, McCrory assigned its rights as tenant under leases for five S. Klein store locations to Korvettes, Inc., a wholly-owned subsidiary of Arlen Realty & Development Corp. As part of the transaction, McCrory sold to Korvettes all of the leasehold improvements and certain trade fixtures located in such stores for $3,916,000 in notes, payable in monthly instalments over 18 years. At January 31, 1977, the notes aggregated $3,627,000 of which $3,400,000 is included in "other assets" in the Consolidated Balance Sheet. Korvettes has assumed McCrory's obligations under such leases, including the obligation to pay substantially all of the rent, real estate taxes and other charges. The aggregate minimum annual rental payments under such leases range from approximately $2,000,000 in the year ended January 31, 1976 to approximately $800,000 in the year ending January 31, 2000, and aggregate approximately $33,700,000 for the period commencing October 1, 1975 and ending upon expiration of the initial terms of such leases. Real estate taxes and other

charges payable under such leases aggregated approximately $1,200,000 in the year ended January 31, 1976. Korvettes has the right to renew three of such leases, if its net worth is at least $80,000,000 at the times of renewal; such renewal terms would commence in 1985 and end in 2023, at minimum annual rentals aggregating approximately $26,200,000 over the renewal period. In addition, McCrory had renewed its lease for one S. Klein store location, which was to expire in 1984, for a 25 year term, and had sublet to Korvettes, for a 26 year term commencing in 1983, the main building of such premises. The lease for the entire store location provides for a minimum annual rental of $475,000, plus real estate taxes and other charges which aggregated approximately $375,000 in the year ended January 31, 1976. The agreement to sublease this store to Korvettes was subsequently terminated concurrently with a subleasing of the store to Alexander's, Inc. for a term of 20 years commencing in April 1977 at an annual minimum rental of $663,000 for the first 10 years and $588,000 annually for the balance of the initial term, and a proportionate share of real estate taxes. As consideration for the termination of the sublease with Korvettes, McCrory agreed to pay to Korvettes the sum of $3,500,000 and gave its promissory notes aggregating that amount bearing interest on the unpaid balance at the rate of 10% per annum. On February 1, 1977 McCrory prepaid the notes in full. McCrory recorded a pretax loss of approximately $1,300,000 in the year ended January 31, 1977 relating to such store location. McCrory has not been released by its landlords from any of its obligations under the foregoing leases. As part of the Korvettes transaction, McCrory has subleased, commencing January 1, 1976, two stores (including certain trade fixtures located therein) formerly operated by Arlen or its affiliates (the "Arlen Stores"). McCrory is liable under these subleases, which will expire in 1984, for payments of not more than an aggregate of approximately $9,700,000. McCrory does not intend to occupy or operate either of the Arlen Stores, but is seeking to further sublet them. McCrory has issued its non-interest bearing promissory notes to Arlen and Korvettes in the aggregate amount of approximately $5,300,000 for certain expenses, which have been paid. McCrory also has paid certain other expenses relating to the transaction.

Unconsolidated Subsidiaries and Affiliates

Otasco Credit Corporation and McCrory Credit Corporation—Rapid and certain of its affiliates have financing agreements with Otasco Credit Corporation and had financing agreements with McCrory Credit Corporation under which certain customers' accounts receivable created each month are sold in the following month to the credit companies. The seller receives 90% of the amount of accounts sold, the remaining 10% representing the sellers' equity therein. The seller repurchases accounts in default, as defined. The 10% equity of Rapid and subsidiaries in sold accounts receivable is included in trade receivables in the consolidated balance sheet.

The condensed balance sheets of Otasco Credit at January 31, 1977 and McCrory Credit and its subsidiaries at January 31, 1976 are presented below:

	January 31, 1977	January 31, 1976
	(In Thousands)	
Assets:		
Customers' accounts receivable purchased, net of 10% withheld pending collection ($4,135,000 and $5,090,000) and unearned discount in 1976 ($1,210,000)	$37,216	$44,599
Other receivables, net of unearned discount	—	2,027
Cash	4,153	89
Total assets	41,369	46,715
Liabilities:		
Notes payable to banks	26,000	25,561
Accrued interest and sundry	288	125
Due to affiliated companies	39	974
Total liabilities	26,327	26,660
Rapid's carrying value (including $14,000,000 and $13,900,000 of subordinated notes payable to Rapid and its subsidiaries)	$15,042	$20,055

Net income of McCrory Credit for the years ended January 31, 1977 and 1976 was $245,000 and $385,000, respectively. Net income of Otasco Credit for the period from September 1976 to January 31, 1977 was $42,000. Rapid's equity therein is included in consolidated net income.

On September 1, 1976, Otasco Credit entered into an agreement with a regional bank group for a revolving credit line in the initial aggregate principal amount of $25,000,000 (increased to $27,000,000 in February, 1977), secured by substantially all of Otasco's trade accounts receivable. The agreement expires on June 30, 1977, however, Otasco, Otasco Credit and the regional bank group have reached an agreement in principle for a two year extension. In connection with the agreement, Otasco purchased the trade accounts receivable previously sold to McCrory Credit by the Otasco Division of McCrory. The agreement provides, among other things, for an interest rate of ¾ of 1% above prime and maintenance of compensating balances equal to 15% of the borrowings. As of January 31, 1977 the average interest rate was 7%. The average amount of notes payable to banks outstanding for the five months ended January 31, 1977 was $25,600,000, and the weighted average interest rate was approximately 7.3%.

At January 31, 1976, McCrory Credit entered into an agreement, extending the maturity date of its then outstanding bank loans to January 31, 1977; such loans were prepaid on September 1, 1976 principally with the proceeds from the sale of receivables to Otasco, Inc. McCrory Credit was liquidated into McCrory on January 31, 1977.

On August 27, 1975, Lerner entered into an agreement with Citicorp Custom Credit, Inc. ("Custom"), pursuant to which Custom purchases and services, during a three-year period which commenced in September 1975, substantially all of Lerner's accounts receivable arising from sales to customers by Lerner and its subsidiaries. In connection with this agreement, Lerner repurchased the accounts receivable previously sold to McCrory Credit for approximately $31,800,000. The agreement imposes restrictions on Lerner holding securities and debt of McCrory and Rapid, the payment of dividends on Lerner's capital stock, and Lerner guaranteeing the obligations of others and entering into transactions with McCrory and Rapid. The agreement is subject to two one-year renewal terms at the option of Lerner so long as no material adverse change has occurred in Lerner's business, financial condition or its Charge Plan, Charge Customers or Indebtedness (as each is defined). At the termination of the agreement Lerner is obligated to repurchase all then eligible outstanding accounts receivable at their face amounts. Lerner has accounted for the agreement as a sale of accounts receivable.

Long John International Limited—In July 1975, Schenley sold its 75% interest in Long John for approximately $31,200,000 in cash. Such sale resulted in a gain of approximately $5,374,000 before related income taxes of approximately $6,100,000.

ILC Industries, Inc.—At January 31, 1977 and 1976, Rapid owned 555,054 shares (74%) and 525,000 shares (70%), respectively, of ILC common stock. In the year ended January 31, 1973 in anticipation of its sale the investment in ILC was written down to estimated net realizable value. ILC incurred a net loss for the year ended December 31, 1975 of $656,000 and had net income of $57,000 for the year ended December 31, 1976. The carrying value of Rapid's investment in ILC, including loans and advances, aggregated approximately $5,300,000 at January 31, 1977 and $5,200,000 at January 31, 1976. Under ILC's bank agreement, repayment of advances on an open account basis is subordinated to repayment of ILC's bank debt. Rapid has agreed not to dispose of any of its capital stock of ILC without the prior written consent of ILC's bank lenders. ILC sold the net assets of a subsidiary in December 1976 and the proceeds from such sale were applied primarily to reduce ILC's bank debt.

3. *Inventories*

Inventories consisted of the following:

	January 31, 1977	January 31, 1976
	(In Thousands)	
At cost—whiskey, other spirits and wine:		
In bond	$273,354	$271,226
Tax paid	46,648	51,375
At lower of cost or market:		
Retail method—at stores and warehouses	133,782	142,675
Principally first-in, first-out and average cost:		
Merchandise at stores, plants and warehouses	74,776	65,702
Work in process	10,470	11,154
Raw materials and supplies	36,260	36,453
At identified cost—merchandise in transit, at warehouses and restaurants	31,480	29,789
Total	$606,770	$608,374

4. *Intangibles*

The aggregate cost of investments exceeded equity in underlying net assets acquired at dates of acquisition as follows:

	January 31, 1977	January 31, 1976
	(In Thousands)	
Glen Alden, principally Schenley (Note 2)	$169,514	$169,903
Lerner (a)	65,538	62,501
McCrory (Note 2)	20,137	29,034
Rapid-American Menswear (b)	14,592	14,592
Other	2,509	2,506
Total (c)	272,290	278,536
Less accumulated amortization	15,226	12,003
Net	$257,064	$266,533

(a) Includes $3,037,000 at January 31, 1977, representing additional consideration issued in October 1976 upon the settlement of litigation arising from acquisition of the Lerner minority interest.

(b) Incurred losses in the two years ended January 31, 1976, but was profitable in the current year and prior years.

(c) Includes $156,601,000 and $162,675,000, respectively, which is being amortized over periods not exceeding forty years (see Note 1).

Franchises which consist of Schenley contracts to import whiskeys, liquors, and other distilled spirits amounted to $48,280,000 at January 31, 1977, after accumulated amortization of $1,720,000 and $48,679,000, at January 31, 1976, after accumulated amortization of $1,321,000.

5. *Short-Term Debt*

Short-term debt outstanding consisted of notes payable to various banks ($109,000,000 at January 31, 1977 and $81,000,000 at January 31, 1976) and various other notes payable aggregating $5,412,000 at January 31, 1977 and $4,823,000 at January 31, 1976. The bank notes are generally payable ninety days after date of issuance, and the average interest rates were 6.5% and 7.2% as of January 31, 1977 and 1976, respectively. The maximum amount of short-term bank debt outstanding at any month-end was $238,000,000 and $310,000,000, respectively, during the years ended January 31, 1977 and 1976. The average amount of short-term bank debt outstanding was approximately $155,000,000 and $245,000,000, respectively, during the years ended January

31, 1977 and 1976, and the weighted average interest rates on such debt were approximately 7.6% and 9.3%, respectively. Unused lines of credit available for short-term bank borrowings aggregated approximately $143,000,000 at January 31, 1977 and $176,000,000 at January 31, 1976.

Rapid (until October 31, 1975) and its subsidiaries, under informal compensating balance arrangements, are expected to maintain cash balances of up to 10% of the lines of credit and of up to 10% of the loans outstanding under these lines. Such requirements were satisfied by maintenance of the required balances.

The average weekly cash book balances with various banks having a credit relationship with Rapid and its consolidated subsidiaries were approximately $54,000,000 and $67,000,000, respectively, during the years ended January 31, 1977 and 1976. The aforementioned balances were subject to withdrawal at any time.

6. *Long-term Debt*

Long-term debt at January 31, 1977 and 1976 was as follows:

	January 31,		Interest Rates at January 31, 1977	
	1977	1976	Stated Percent	Effective Percent
	(In Thousands)			
Long-term Debt (less current maturities of $10,136,000 and $23,457,000, respectively):				
Rapid (a):				
Notes and mortgages payable, due 1977 to 1996 (b)	$209,314	$216,713	2-10.3	2-10.3
Subordinated debentures, due 1994	118,043	118,043	7	9.3-9.9
Sinking fund subordinated debentures, due 1985 and 1988	380,666	388,404	6-7.5	8-10
	708,023	723,160		
McCrory:				
Notes and mortgages payable, due 1977 to 1999 (c)	35,430	46,196	2-10	2-10
Sinking fund and subordinated debentures, due 1981 to 1997 (d)	211,104	218,907	5-10.5	5-12.1
	954,557	988,263		
Less unamortized discount	137,186	146,441		
	$817,371	$841,822		

(a) Rapid and consolidated subsidiaries, excluding McCrory and its consolidated subsidiaries.

(b) Includes $131,000,000 and $138,500,000, respectively, of notes payable to banks and the Federal Deposit Insurance Corporation at January 31, 1977 and 1976 with interest at ¾% above 115% of the prime rate. Prime rates were 6.25% and 6.75%, respectively, at January 31, 1977 and 1976.

(c) Includes $30,000,000 and $40,000,000, respectively, of notes payable to banks and the Federal Deposit Insurance Corporation at January 31, 1977 and 1976, pursuant to a Revolving Credit Agreement, the term of which, by amendment, was extended to June 30, 1979.

(d) Excludes $57,150,000 principal amount of McCrory debentures owned by Rapid at January 31, 1976. During February and March 1976, Rapid purchased an additional $10,087,000 principal amount of McCrory debentures. Such debentures ($67,237,000 principal amount) were exchanged for McCrory notes (aggregating $35,197,000) in March 1976.

Aggregate long-term debt at January 31, 1977, before deduction of unamortized discount, matures as follows:

Year Ending January 31,	(In Thousands)	Five Years Ending January 31,	(In Thousands)
1978	$ 10,136	1982	$221,556
1979	26,035	1987	211,850
1980	113,950	1992	310,428
1981	27,740	1997	211,225
1982	43,695	2002	9,634
	$221,556		$964,693

Rapid

A bank loan agreement (terminated as of October 31, 1975) contained various covenants relating to Rapid's financial position and also contained restrictions on actions that could be taken by Rapid including, but not limited to, the incurrence of indebtedness, guarantees, lease commitments, the disposition of property, business combinations, capital expenditures, investments and the payment of dividends. The loan agreement was amended twice and the banks, on several occasions, waived compliance with certain covenants, including working capital requirements and gave waivers permitting Rapid to pay dividends on January 31, 1975 and in the succeeding fiscal year on its outstanding classes of preferred stock at the rates specified in Rapid's certificate of incorporation and to pay dividends on January 31, 1975 and on April 30, 1975 on its common stock, at the rate of 25 cents and 12½ cents per share, respectively. Subsequent to April 30, 1975 regular quarterly dividends have been declared and paid on the preferred stocks and dividends have not been declared on the common stock.

On November 7, 1975 (reflected as of October 31, 1975), Rapid entered into a term loan agreement dated as of October 31, 1975 ("Loan Agreement") with eleven banks and the Federal Deposit Insurance Corporation (hereinafter collectively referred to as the "Banks"). Pursuant to the Loan Agreement, Rapid applied $10,000,000 of the cash proceeds from the sale of Playtex and all of the Esmark securities received (see Note 2) in satisfaction of $150,000,000 of Rapid's prior indebtedness to the Banks. The balance of Rapid's prior indebtedness to the Banks, including $50,000,000 which had been borrowed under a term loan agreement dated as of November 1, 1972, and $93,500,000 of short-term borrowings was then restructured into a new term loan pursuant to the Loan Agreement and the prior term loan agreement was terminated. The aggregate borrowing under the Loan Agreement ($143,500,000) matures over seven years, with annual instalments commencing on December 31, 1976 of $5,000,000 (prepaid in June 1976); $7,500,000; $12,500,000; $15,000,000; $20,000,000; $28,000,000; and $55,500,000. The notes bear interest at an annual rate equal to ¾% per annum above 115% of the prime rate. Rapid agreed to pay the lenders the difference between the 6½% dividend rate on the Esmark preferred stock (so long as they hold such stock) and the prime rate, until November 1, 1983.

To secure its obligations to the Banks under the Loan Agreement and certain related agreements and, pursuant to a pledge agreement entered into on the same date as the Loan Agreement, Rapid has granted to the Banks a security interest in all the shares of capital stock of McCrory owned by Rapid, including the shares acquired upon the merger with McCrory on March 12, 1976, and $35,197,000 of subordinated notes of McCrory exchanged for $67,237,000 principal amount of McCrory subordinated debentures (see Note 2).

The Loan Agreement contains various restrictions on Rapid and certain of its subsidiaries, including, without limitation, restrictions on the payment of cash dividends, indebtedness, liens, guarantees, the disposition of property, investments and the right to engage in business combinations. The Loan Agreement provides that Rapid may pay cash dividends on its common stock in

any fiscal quarter equal to (A) 25% of (x) consolidated net income (as defined) for the four immediately preceding fiscal quarters minus (y) the sum of (1) $10,000,000, plus (2) cash losses from discontinued operations (if any) incurred in the four immediately preceding fiscal quarters (except to the extent that any such cash losses have theretofore been included in any provisions for loss), plus (3) items of extraordinary income for the four immediately preceding fiscal quarters, plus (4) scheduled maturities of the Rapid notes during the succeeding 12 calendar months, minus (B) dividends on Rapid's preferred stocks paid in the four preceding fiscal quarters and payable during such fiscal quarter and the common stock cash dividends paid in the four preceding fiscal quarters. Pursuant to this covenant, at January 31, 1977 Rapid was not permitted to pay a cash dividend on its common stock. The Loan Agreement also requires Rapid to maintain minimum levels of (i) consolidated net worth (as defined) and (ii) an excess of consolidated current assets (as defined) over consolidated current liabilities (as defined). Since the Loan Agreement was entered into, it has been amended, and the lenders on several occasions, have waived compliance with certain of its covenants.

Schenley

Schenley has a loan agreement with certain insurance companies, which matures on March 1, 1979, under which it presently is borrowing $71,500,000. Such debt bears interest at the rate of 6½% per annum. The agreement contains certain limitations with respect to additional borrowings and places certain limitations on the payment of cash dividends and the acquisition by Schenley of its capital stock.

McCrory

The McCrory Revolving Credit Agreement, entered into in November 1974, provided for an aggregate credit of $110,250,000 at January 31, 1976. It was amended and restated as of January 31, 1977 and, the Banks and the Federal Deposit Insurance Corporation committed to McCrory $93,500,000, which will be reduced to $83,000,000 on February 2, 1978 and $72,000,000 on February 2, 1979. The interest charge is at the rate of the higher of ¾% above the prime rate or 1¼% above the commercial paper rate (as defined) on an annual basis, however, the interest rate applicable to the FDIC shall not be less than 8½% or more than 10½%. The Revolving Credit Agreement also provides for a commitment fee of ½ of 1% per annum on the average unused portion of the committed lines. At January 31, 1977 there were $35,000,000 of notes outstanding ($30,000,000 included in long-term debt) and $58,500,000 of unused lines of credit available. Notes of $30,000,000 and $20,000,000, respectively, are renewable by McCrory on a quarterly basis until February 1, 1978 and 1979. It is McCrory's present intention to renew such notes until February 1, 1979. McCrory is required to reduce to $30,000,000 and $20,000,000, respectively, its aggregate borrowings under the Revolving Credit Agreement for a 30-day period during the last two months of the years ending January 31, 1978 and 1979. At January 31, 1976, there were $40,000,000 of notes outstanding (included in long-term debt) and $70,250,000 of unused lines of credit available.

To secure the loans, McCrory granted to the Banks and the FDIC security interest in (i) all of the outstanding capital stock of Lerner, (ii) a note of Newberry in the principal amount of $41,500,000 payable to McCrory and (iii) certain accounts receivable of McCrory payable by Newberry. McCrory's obligations under the Revolving Credit Agreement are guaranteed by its subsidiaries, other than Newberry and its subsidiaries and Otasco and its subsidiaries. The Revolving Credit Agreement requires McCrory to maintain compensating balances at each of the Banks averaging 10% of the outstanding borrowing and 10% of the total credit line. There are no legal restrictions on the withdrawal of such funds. If compensating balances are not maintained, a deficiency fee will be incurred.

The Revolving Credit Agreement, also requires McCrory to maintain minimum levels of (i) consolidated tangible net worth plus subordinated indebtedness, (ii) consolidated net current assets and (iii) ratios of consolidated current assets to current liabilities (as each term is defined).

The Revolving Credit Agreement and other agreements covering certain indebtedness contain certain other material restrictions on McCrory and its subsidiaries, including restrictions on indebtedness, liens, guarantees, lease commitments, capital expenditures, the disposition of property, investments and the right to engage in business combinations. Furthermore, the Revolving Credit Agreement restricts the amount of McCrory's indebtedness to Lerner and the amounts of future dividends (as defined) which may be declared by Lerner. McCrory is permitted to pay cash dividends on its common stock commencing in the fiscal year ending January 31, 1978 (payable in the subsequent fiscal year) out of cash flow (as defined). McCrory is also permitted to pay cash dividends on its preferred and preference stocks in accordance with the stated dividend rates.

Since the Revolving Credit Agreement was entered into, it has been amended, and the lenders, on several occasions, have waived compliance with certain of its covenants.

The maximum amounts of notes payable by McCrory to the Banks and the FDIC outstanding at any month-end during the years ended January 31, 1977 and 1976 were $109,250,000 and $110,250,000, respectively. The average amount of notes payable to the Banks and the FDIC outstanding during the years ended January 31, 1977 and 1976, were approximately $81,000,000 and $89,000,000, respectively. The interest rate applicable to such loans was 7.88% at January 31, 1977 and 8.43% at January 31, 1976 and ranged during the years from 6.9% to 12.6%. The weighted average interest rates on such debt for the years ended January 31, 1977 and 1976 were approximately 8.7% and 9.5%, respectively. The average daily bank balances on deposit with the Banks in the Revolving Credit Agreement during the years ended January 31, 1977 and 1976 were approximately $14,500,000 and $22,000,000, respectively.

7. *Preferred Stocks*

At January 31, 1977 and 1976, cumulative convertible preferred stocks of Rapid were as follows:

January 31, 1977	$3 Preferred (a)	$3.15 Preferred (a)	$2.25 Junior Preferred ($2 Par Value)
Number of shares:			
Authorized	2,172,995	1,300,000	397,777
Outstanding	109,585	5,648	264,534
Aggregate par or stated value	$5,957,000	$345,000	$529,000
Liquidation value per share	$105	$107	$45
Aggregate liquidation preference (b)	$11,506,000	$604,000	$11,904,000
Conversion rate per share (c)	3.572 for 1	3.877 for 1	3.2 for 1
Shares of common stock reserved for conversion of stock outstanding	391,437	21,897	846,508
January 31, 1976			
Number of shares:			
Authorized	2,172,995	1,300,000	397,777
Outstanding	109,649	5,836	264,534
Aggregate par or stated value	$5,961,000	$357,000	$529,000
Liquidation value per share	$105	$108	$45
Aggregate liquidation preference (b)	$11,513,000	$630,000	$11,904,000
Conversion rate per share	3.269 for 1	3.557 for 1	3 for 1
Shares of common stock reserved for conversion of stock outstanding	358,442	20,758	793,602

(a) Without par value. The conversion rates of the preferred stocks are subject to anti-dilution adjustments under certain circumstances.

(b) The excess ($17,183,000 and $17,200,000 at January 31, 1977 and 1976, respectively) over par or stated value imposes no restriction upon the payment of cash dividends.

(c) On March 12, 1976, pursuant to the anti-dilution provisions of these issues and as a result of the merger with McCrory, the conversion rates of the $3 preferred, the $3.15 preferred and the $2.25 junior preferred were adjusted to 3.572, 3.877 and 3.200 shares of common stock, respectively, for each share of such preferred stocks.

During the year ended January 31, 1977, 64 shares of $3 preferred stock and 188 shares of $3.15 preferred stock were converted into 952 shares of Rapid common stock. During the year ended January 31, 1976, 1,423 shares of $3 preferred stock, 63 shares of $3.15 preferred stock and 15,544 shares of $2.25 junior preferred stock were converted into 51,500 shares of Rapid common stock.

8. *Common Stock, Purchase Warrants and Options*

Warrants entitling their holders to purchase shares of Rapid's common stock were outstanding as follows:

		Number of Warrants	
		January 31,	
Expiration Date	Exercise Price	1977	1976
May 1, 1976	$ 8.50	—	100,000
May 15, 1994 (redeemable at $20)*	35.00	3,965,883	3,965,883
Total		3,965,883	4,065,883

* The terms of these warrants are subject to adjustments under certain circumstances.

There were no redeemable warrants issued during the years ended January 31, 1977 and 1976. At January 31, 1977 and 1976, McCrory owned 155,368 redeemable warrants (excluded above). McCrory also owned at January 31, 1977 and 1976, 77,668 and 77,684 shares, respectively, of Rapid's common stock, which have been included with treasury stock in the consolidated financial statements.

On May 30, 1973, Rapid's stockholders approved a qualified stock option plan which provides for the grant of options to purchase 500,000 shares of common stock at not less than 100% of fair market value on the dates of grant. In June 1974, the only grant to date, options to purchase 221,900 shares of common stock at $14.00 per share were granted. During the two years ended January 31, 1977 and 1976 no options were exercised and options to purchase 11,900 shares and 117,300 shares, respectively, of common stock were cancelled. At January 31, 1976, options to purchase 101,500 shares of common stock were outstanding (50,750 exercisable), with 398,500 available for grant. At January 31, 1977, options to purchase 89,600 shares of common stock were outstanding (67,200 exercisable). Rapid does not intend to grant additional options under this plan.

On May 30, 1973, Rapid's stockholders approved the grant of two non-qualified stock options for the purchase of an aggregate of 300,000 shares of common stock at a purchase price of $25.00 per share to two officers.

The former Glen Alden 1965 option plan, which was assumed by Rapid upon the effectiveness of the Rapid-Glen Alden Merger in November 1972, authorized the grant of options to purchase common stock and warrants. The 1965 plan expired on June 30, 1974. Option data were as follows:

	Number of	
	Shares	Redeemable Warrants
Outstanding, February 1, 1975	129,290	369,412
Cancelled	(78,816)	(225,162)
Outstanding and exercisable, January 31, 1976	50,474	144,250
Cancelled	(42,950)	(122,750)
Outstanding and exercisable, January 31, 1977	7,524	21,500

Prices of outstanding options ranged from $7.875 to $11.625 for the year ended January 31, 1976 and are at a price of $11.625 for the year ended January 31, 1977.

The aggregate option price and the aggregate market value at date of grant on the options outstanding at January 31, 1977 was $250,000. During the year ended January 31, 1977 no shares or warrants became exercisable and during the year ended January 31, 1976, 6,643 shares and 18,984 warrants became exercisable at an aggregate option price of $221,000 ($11.625 per unit) with an aggregate fair market value of $78,000 ($4.12 per unit). No options for the purchase of shares and warrants were exercised in either year.

At January 31, 1977 there were 413,618 shares of Rapid common stock reserved for conversion of McCrory preferred and preference stocks and debentures, and for issuance under its stock option plans and upon exercise of McCrory common stock purchase warrants outstanding.

9. *Provision for Store Closing Programs*

In February 1976, management of McCrory decided to terminate certain Variety Store and Britts department store operations in the mid-western region of the United States and, accordingly, as of January 31, 1976, recorded a provision of $13,400,000 (before related Federal income tax benefit of approximately $6,400,000 and minority interest of approximately $2,600,000) principally for the estimated losses to be incurred in connection with the termination of such operations. Such estimated losses and charges consist of the following:

	Provision	As of January 31, 1977	
	Year Ended January 31, 1976	Charges	Balance
		(In Thousands)	
Write-down of assets to net realizable value	$ 5,091	$ 2,448	$ 2,643
Present value of future lease commitments and real estate taxes, net of estimated recoveries	10,200	2,215	7,985
Other related costs	850	250	600
	16,141	$ 4,913	$11,228
Less portion charged to excess of net assets acquired over related costs	2,741		
Provision	$13,400		

The balance at January 31, 1977, consists of $1,365,000 (current) and $9,863,000 (long-term).

The estimated losses ($2,741,000) which relate to the Newberry fixed assets attributable principally to certain Variety Store and Britts department store operations in the mid-western region of the United States to be terminated have been excluded from such provision as of January 31, 1976 and have been applied, net of related Federal income tax benefit of $1,316,000, as a reduction of the "excess of net assets acquired over related costs" and losses incurred ($346,000, net of related Federal income tax benefit) in the disposition of certain other Newberry fixed assets during the year ended January 31, 1976 have also been applied as a reduction of such excess.

10. *Provision for Disposition of Certain Operations*

In April 1975, management of Rapid decided to dispose of certain of its consumer products operations including Maria Mills, Inc., Friedman Marks, Inc., Almar Manufacturing Corporation and Meadow Sportswear. Accordingly, as of January 31, 1975 a provision of $10,441,000 (before a related deferred income tax benefit of $4,115,000) was established for the estimated losses expected to be incurred upon the disposition of such operations. In the years ended January 31, 1977 and 1976 additional provisions of $1,300,000 and $2,779,000 (before a related income tax benefit of $1,334,000 in the year ended January 31, 1976) were recorded, based upon losses incurred and revised estimates of additional future losses to be incurred. Through January 31, 1977

approximately $12,994,000 of such losses were charged against the established reserve ($14,520,000). The additional provisions for such estimated losses of such companies represent a disposal of part of a line of business (not a discontinued operation) and accordingly, they have been included in continuing operations in the years ended January 31, 1977 and 1976. During the year ended January 31, 1976, net sales of such operations were $3,287,000 and the related net loss was $526,000.

11. *Provision for Loss on Lease*

In the year ended January 31, 1976, management of Rapid decided to consolidate its executive offices at premises currently under lease and occupied by certain subsidiaries. Accordingly, it determined not to move its executive offices to other premises, leased for 25 years at an annual rental of approximately $1,500,000. In October 1975, Rapid recorded a provision of $3,500,000 (before a related deferred Federal income tax benefit of $1,680,000) for the estimated loss on such lease. Through January 31, 1977 approximately $480,000 of such losses were charged against the established reserve.

12. *Income Taxes*

The examinations by the Internal Revenue Service of the Federal income tax returns of Rapid, Glen Alden and McCrory have been substantially completed for the periods ended January 31, 1970, December 31, 1969 and January 31, 1970, respectively. While the liabilities for the above-mentioned periods and open years are subject to final determination, the amount accrued in the consolidated balance sheet, in the opinion of management, is adequate to cover amounts which may ultimately be payable.

The provision (benefit) for income taxes included in the statement of consolidated operations consisted of the following:

	Year Ended January 31,	
	1977	1976
	(In Thousands)	
Continuing operations:		
Federal:		
Current	$11,368	$(11,212)
Deferred	3,228	(1,496)
Foreign:		
Current	1,973	1,771
Deferred	184	192
State	7,602	4,182
	24,355	(6,563)
Operations discontinued or sold:		
Federal:		
Current	(3,038)	(7,820)
Deferred	3,038	8,318
Foreign:		
Current	—	4,552
Deferred	—	(382)
	—	4,668
Total	$24,355	$ (1,895)
Applicable to:		
Rapid and subsidiaries	$ 5,917	$ (7,851)
McCrory and subsidiaries	18,438	5,956
Total	$24,355	$ (1,895)

At January 31, 1976, McCrory had an estimated net operating loss carry-forward of approximately $10,000,000 which was utilized in the year ended January 31, 1977; therefore, included in the current provision for Federal income taxes from continuing operations in the year ended January 31, 1977 is $4,433,000 representing a charge equivalent to the current utilization of McCrory's net operating loss carry-forward. The tax benefit of such loss carry-forward was recognized in a prior period.

At January 31, 1975, Rapid had an estimated net operating loss carry-forward of approximately $53,500,000. As a result of the sale of the assets and business of Playtex and the sale of the investment in Long John, Rapid reported taxable income from these transactions of approximately $160,000,000 in its tax return for the year ended January 31, 1976. The taxes which would otherwise be payable (approximately $34,500,000) on the ordinary taxable income (approximately $72,000,000) generated from such sales, were recorded as a tax benefit attributable to continuing operations for the year ended January 31, 1976 to the extent of the operating losses incurred, with the remainder recorded as an extraordinary credit arising principally from the utilization of the prior year operating loss carry-forward (see Note 14).

Available investment tax credits of approximately $780,000 and $480,000, respectively, for the years ended January 31, 1977 and 1976 were applied as reductions of Federal income tax provisions.

Deferred income taxes (benefit) relating to continuing operations result from the tax effects of items reported in different periods for tax and financial reporting purposes. The sources of these differences attributable to continuing operations and the tax effect of each were as follows:

	Year Ended January 31, 1977	Year Ended January 31, 1976
	(In Thousands)	
Investment tax credit (net of recapture)	$ 600	$ (484)
Provision for disposition of certain operations	—	2,733
Excess of tax over book (book over tax) depreciation	(305)	757
Amortization of debt discount	—	2,519
Deferred systems development costs	(212)	(403)
Reduction in reserve for store closing programs	3,015	704
Installment sales	576	(4,637)
Provision for loss on lease	—	(1,680)
Other	(262)	(813)
Total	$ 3,412	$(1,304)

Deferred income taxes (benefit) relating to operations discontinued or sold result from the tax effects of items reported in different periods for tax and financial reporting purposes. The sources of these differences attributable to discontinued or sold operations and the tax effect of each were as follows:

	Year Ended January 31, 1977	Year Ended January 31, 1976
	(In Thousands)	
Reduction in reserve for store closing programs	$3,038	$8,215
Excess of tax over book depreciation	—	252
Other	—	(531)
Total	$3,038	$7,936

Total income tax provision (benefit) relating to continuing operations for the years ended January 31, 1977 and 1976 amounted to $24,355,000 and $(6,563,000), respectively, representing effective income tax rates of 66.2% and (26.1)%, respectively. These amounts are different than the amounts of $17,671,000 and $(12,088,000), respectively, computed by applying the statutory Federal income tax rate of 48% to income (loss) attributable to continuing operations before provision (benefit) for income taxes and minority interest. The reasons for the variances from the statutory rate are as follows:

	Percent of Pre-tax Income (Loss)	
	Year Ended January 31,	
	1977	1976
Statutory rate	48.0%	(48.0)%
Increase (decrease) in income tax rate resulting from:		
Sale of Long John	—	13.3
Amortization of excess of cost of investments over related equities and other intangibles	5.7	10.2
State tax provision (net of Federal income tax effect)	10.8	8.6
Amortization of excess of equity over cost of investment	(2.4)	(4.3)
Foreign income	(.1)	(3.0)
Investment tax credit	(2.1)	(1.9)
Operating losses not tax effected	6.3	—
Other	—	(1.0)
Actual income tax rate	66.2%	(26.1)%

Total income tax provision relating to operations discontinued or sold for the year ended January 31, 1976 amounted to $4,668,000 representing an effective income tax rate of 29.6%. This amount is different than the amount of $7,562,000 computed by applying the statutory Federal income tax rate of 48% to income attributable to discontinued or sold operations before income taxes and minority interest, primarily due to tax exempt income from Puerto Rico sources.

13. *Pension Plans*

Rapid and its subsidiaries have various contributory and non-contributory pension plans covering eligible employees. The provision for pension costs relating to continuing operations under the plans was $9,020,000 and $7,372,000 for the years ended January 31, 1977 and 1976, respectively; the increase is due in part to compliance with the Employee Retirement Income Security Act of 1974. It is the general policy to fund pension cost accrued as required. As of January 31, 1977, the actuarially computed value of vested benefits under certain of the plans exceeded the total of the related pension funds and balance sheet accruals by approximately $28,000,000. Unfunded prior service cost amounted to approximately $34,000,000 at January 31, 1977, substantially all of which is being funded over various periods not exceeding thirty years.

14. *Extraordinary Credit*

In the year ended January 31, 1976, Rapid recorded an extraordinary credit of $14,715,000, representing the utilization of net operating loss and foreign tax credit carry-forwards generated in prior years.

15. *Income (Loss) Per Share of Common Stock*

Primary income (loss) per share is based on the weighted average number of common shares outstanding during each period and gives effect to the assumed exercise of common stock equivalents. In addition, when appropriate, it has been assumed that a portion of the proceeds from such assumed exercises, when dilutive, were utilized to acquire common stock with the balance of the proceeds having been used to reduce outstanding debt. Rapid's equity in preferred dividend

requirements of its consolidated subsidiaries ($1,081,000 and $707,000 for the years ended January 31, 1977 and 1976, respectively) has been deducted in determining net income applicable to common stockholders and primary income (loss) per share amounts.

Fully diluted income (loss) per share has been determined on the assumption that all dilutive convertible securities had been converted into common stock with appropriate adjustments having been made for related dividends and interest expense, net of applicable Federal income taxes. It has been further assumed that dilutive stock options and warrants were exercised and that a portion of the proceeds therefrom was utilized to acquire common stock at a price equal to the higher of the average market price or the end of period market price with the balance of the proceeds having been used to reduce outstanding debt. Reported income (loss) per share assuming full dilution cannot reduce primary loss per share nor increase primary income per share. For the year ended January 31, 1976, the above mentioned assumed conversions of convertible securities and exercise of stock options and warrants were anti-dilutive.

16. *Lease Commitments*

Rapid and certain of its subsidiaries operate principally in leased premises. The basic terms of the leases generally range from 10 to 40 years and provide for the payment of additional rentals based upon percentages of sales, plus in certain instances, real estate taxes, insurance and maintenance costs. Many of the leases are noncapitalized financing leases, as defined by the Securities and Exchange Commission.

Rent expense, net of minor sublease income, is as follows:

	Year Ended January 31, 1977	Year Ended January 31, 1976
	(In Millions)	
Basic rents:		
Noncapitalized financing leases	$27.0	$33.0
Other	41.7	40.0
Contingent rents:		
Noncapitalized financing leases	1.3	2.8
Other	13.3	13.0
	$83.3	$88.8
Continuing operations	$83.3	$85.5
Discontinued operations	—	3.3
	$83.3	$88.8

The minimum rental commitments, net of sublease income, in effect at January 31, 1977 are as follows:

Years Ending January 31,	Continuing Operations: Financing Leases	Continuing Operations: Total	Discontinued Operations Financing Leases*	Total**
	(In Millions)			
1978	$ 27.8	$ 64.4	$ 4.9	$ 69.3
1979	26.8	61.2	4.8	66.0
1980	26.0	58.3	4.8	63.1
1981	22.9	53.3	4.4	57.7
1982	21.2	49.6	4.0	53.6
1978-1982	124.7	286.8	22.9	309.7
1983-1987	82.8	203.8	17.8	221.6
1988-1992	53.3	127.9	12.5	140.4
1993-1997	28.9	56.5	7.1	63.6
Thereafter	23.9	28.1	8.0	36.1
	$313.6	$703.1	$68.3	$771.4

* See Note 2.

** Includes financing and other leases.

Total minimum rental commitments, total commitments and present values of noncapitalized financing leases, and the weighted average and range of interest rates used in computing present values of financing leases are as follows:

	January 31, 1977				January 31, 1976			
	Continuing Operations				Continuing Operations			
	Real Property	Equipment and Fixtures	Discontinued Operations	Total	Real Property	Equipment and Fixtures	Discontinued Operations	Total
	(In Millions)							
Total minimum rental commitments	$680.1	$23.0	$68.3	$771.4	$732.3	$28.7	$79.8	$840.8
Total noncapitalized financing leases	$291.3	$22.3	$68.3	$381.9	$340.4	$28.5	$79.8	$448.7
Present values of total noncapitalized financing leases	$175.0	$16.8	$31.8	$223.6	$207.9	$20.1	$38.4	$266.4
	(Percent)							
Interest rates used in computing present values:								
Range	4.7-10.8	5.0-12.8	10.0-12.0*	4.7-12.8	4.7-10.8	5.0-12.8	10.0-12.0*	4.7-12.8
Weighted average	6.4	6.4	10.4	6.5	6.4	6.5	10.4	7.0

* Represents the interest rates used in the determination of the provision for loss on discontinued operations.

If all leases identified as noncapitalized financing leases had been capitalized, the effect on net income would not have been significant.

17. *Litigation, Commitments and Contingencies*

Rapid and certain of its subsidiaries are defendants in various actions brought by private individuals in which plaintiffs allege violations of securities laws, anti-trust laws, or corporation laws. Substantial damages or significant declaratory or injunctive relief are requested in these actions. In addition, actions are pending and claims have been asserted against Rapid and certain of its subsidiaries by landlords, vendors, customers and others in which substantial damages are requested. While Rapid and its subsidiaries intend to defend vigorously such actions and claims, it is not possible to predict with certainty the ultimate outcome of such actions and claims or whether any of them will result in any significant liability to Rapid on a consolidated basis.

Rapid was guarantor as of January 31, 1977 as follows: (a) $1,000,000 of mortgage notes previously held by Rapid or subsidiaries but sold to non-affiliates; (b) $44,000,000 of leases supporting industrial revenue bonds, $2,000,000 of other loans and approximately $34,000,000 of lease payments, all of which are obligations of former subsidiaries, as to which the purchasers of such subsidiaries have agreed to indemnify Rapid against any loss under the guarantees; and (c) other obligations of approximately $14,000,000, the majority of which are lease payments of subsidiaries.

18. *Interim Financial Information (Unaudited)*

In the opinion of the management of Rapid, the following unaudited quarterly information for the year ended January 31, 1977 includes all adjustments, which comprise only normal recurring accruals, necessary for a fair presentation.

	Quarter Ended			
	April 30	July 31	October 31	January 31
	(In Millions, Except Per Share Amounts)			
Net sales	$518.7	$532.1	$597.5	$697.8
Income (loss) before income taxes (benefits) and minority interest	(1.7)	(6.6)	13.5	31.6
Net income (loss)	(2.6)	(6.2)	7.8	14.9
Net income (loss) per share of common stock:				
Primary	(.42)	(.88)	.94	1.81
Fully diluted	*	*	.83	1.45

* Anti-dilutive.

19. *Replacement Cost Information (Unaudited)*

The impact of inflation in recent years has resulted in replacement costs of inventories and productive capacity that are greater than the historical costs of such assets. Historically, Rapid and its subsidiaries generally have been able to recover the higher costs of goods sold caused by inflation through increases in selling prices.

The annual report on Form 10-K (a copy of which is available upon request) contains specific information with respect to the estimated replacement cost of inventories and productive capacity and the approximate effect which replacement cost would have had on the computation of costs of goods sold and depreciation expense for the year ended January 31, 1977.

20. *Subsequent Event*

On March 31, 1977, Rapid offered to purchase up to 10,000 shares of McCrory 4½% Cumulative Preference B Stock for $40 per share and up to 12,000 shares of McCrory $6 Cumulative Convertible Preference Stock for $50 per share. The offer to purchase such shares expires on May 16, 1977.

ANNUAL REPORT ON FORM 10-K

The Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, is available to stockholders without charge upon written request to: Secretary, Rapid-American Corporation, 888 Seventh Avenue, New York, N. Y. 10019.

HASKINS & SELLS

CERTIFIED PUBLIC ACCOUNTANTS

TWO BROADWAY
NEW YORK, NEW YORK 10004

AUDITORS' OPINION

The Board of Directors and Stockholders
of Rapid-American Corporation:

We have examined the consolidated balance sheet of Rapid-American Corporation and subsidiaries as of January 31, 1977 and 1976 and the related statements of consolidated operations, consolidated stockholders' equity and changes in consolidated financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain subsidiaries whose contribution to consolidated revenues (including revenues of operations discontinued or sold) was approximately 25% and 23%, respectively, for the years ended January 31, 1977 and 1976. These statements were examined by other auditors whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for such subsidiaries, is based solely upon such reports of the other auditors.

As discussed in Note 17, substantial damages are being sought against Rapid-American Corporation and certain of its subsidiaries in various pending actions and asserted claims. It is not possible to predict the ultimate outcome of such actions and claims.

In our opinion, subject to adjustments, if any, which may result from the ultimate outcome of pending actions and claims referred to in the preceding paragraph and based upon our examination and the reports of other auditors, the accompanying consolidated financial statements present fairly the financial position of Rapid-American Corporation and subsidiaries at January 31, 1977 and 1976 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Haskins & Sells

March 24, 1977

LISTED SECURITIES (Symbol: **RPD**)

Security	Transfer Agent(s) or Trustee	Stock Exchange Listing(s)	Outstanding January 31, 1977
Common Stock	Chemical Bank New York, N.Y. and The Fidelity Bank Philadelphia, Pa.	New York Cincinnati Pacific	7,853,186 shs.*
Redeemable Warrants, expiring 1994	Chemical Bank New York, N.Y.	American Pacific	3,965,883 wts.*
Class B Senior Cumulative Convertible ($3) Preferred Stock	Marine Midland Bank New York, N.Y.	New York	109,585 shs.
$2.25 Cumulative Convertible Junior Preferred Stock	Chemical Bank New York, N.Y.	New York	264,534 shs.
7½ % Sinking Fund Subordinated Debentures, due 1985	Bradford Trust Company New York, N.Y.	New York	$ 66,538,000*
6% Sinking Fund Subordinated Debentures, due 1988	Marine Midland Bank New York, N.Y.	New York	$314,128,000*
7% Subordinated Debentures due 1994 (1969 & 1972 issues)	Bank Leumi Trust Company of New York New York, N.Y.	New York	$118,043,000

* Excludes amounts held by Rapid-American and owned by subsidiaries.

PRICE RANGE OF STOCK AND DIVIDEND DATA

	Fiscal Quarter	1976 High	1976 Low	1975 High	1975 Low
Common	1st	8⅜	6	8¼	5¾
	2nd	6⅝	5	6½	5½
	3rd	5⅝	3	6½	5
	4th	7	3⅜	6⅜	4⅞
$3 Preferred	1st	30¾	25¼	25½	22½
	2nd	30	26½	26½	22½
	3rd	28	24¾	26½	21¾
	4th	31¼	24½	25	22
$2.25 Preferred	1st	26	21½	23	18¾
	2nd	23	20¾	23	18
	3rd	22¾	18½	21	18
	4th	25	19	21	17¾

A quarterly dividend of 12½¢ per share was paid on common stock on April 30, 1975. During 1976 and 1975 quarterly dividends of 75¢, 56¼¢ and 78¾¢ per share, respectively, were paid on the $3 preferred stock, $2.25 preferred stock and the $3.15 preferred stock.

The $3.15 preferred stock is closely held, infrequently traded and is not listed on any stock exchange.

Product names printed in *Italics* indicate trademarks or trade names.


Executive Offices: 888 Seventh Avenue, New York, N.Y. 10019
CELEBRATION CREAM
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